



PHD

**Subsidiary Transformation, Network Relations and Dynamic Capability Development
Case Studies of Taiwanese MNE Subsidiaries in China**

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Award date:
2013

Awarding institution:
University of Bath

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**SUBSIDIARY TRANSFORMATION, NETWORK RELATIONS
AND DYNAMIC CAPABILITY DEVELOPMENT: CASE
STUDIES OF TAIWANESE MNE SUBSIDIARIES IN CHINA**

Chun-Pu Lin

A revised draft of thesis submitted for the degree of Doctor of Philosophy

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Abstract

This study investigates how the subsidiaries of multinational enterprises (MNEs) reconfigure their resource bases to respond to an altered strategic positioning. In particular, the focus is on the subsidiaries of multinational enterprises from emerging economies (EMNEs), which undertake transformation from export-orientation to host market-orientation in an emerging economy being host country. Two Taiwanese MNEs with subsidiaries in China extensively operated the host market are selected as case studies. This research is grounded in a preliminary conceptualisation covering three main areas: subsidiary organisations, external actors in the host country and headquarters' functions. It provides insights into (1) how the subsidiaries align their historical resources with newly-developed capabilities; (2) how the subsidiaries govern inter-firm relations with external actors in the host environment; and (3) whether and how complementary resources are to a limited extent transferred from headquarters to subsidiaries so as to support the operations in the host market.

With regards to the organisational initiatives undertaken by the case subsidiaries, it is found that the historical resources are leveraged to support the host market business, whilst at the same time developing required marketing capabilities. In addition, the concept of organisational ambidexterity is adopted to refer to way in which existing (export-oriented) and new (host market-oriented) businesses that are operating simultaneously. As to the inter-firm relations, the case subsidiaries have been mainly governing their relations with distributors by performance-based mechanisms aiming to secure stable profits. By contrast, the relation-based trust was not commonly observed among the cooperation ties. With growing brand strengths and increased direct contact with consumers, they held higher authority over the inter-firm relations with distributors than during the initial stages of operating in the Chinese market. In addition, with regards to the cross-border resource transfers, two distinct modes of headquarters-subsidiary relationships emerged: a traditional one, in which headquarters allocate resources within MNEs and a novel one in which headquarters' functions were gradually replaced by the powerful subsidiary, termed in this thesis as 'migrating headquarters'. On the basis of these findings, we put forward

a set of propositions that present the interrelations between the resource circumstances of case subsidiaries, the institutional environments and the organisational initiatives undertaken by the case subsidiaries.

Theoretically, the contributions of this study are threefold. Firstly, it advances the research on subsidiary development by holistically exploring the: resource reconfiguration of subsidiaries, inter-firm relations with external actors and headquarters-subsidiary relationships. In particular, the resource deficiency which the EMNEsø subsidiaries encountered and the characteristics of the required capabilities for the host market-oriented transformation, i.e. local marketing competences, were investigated.

Secondly, through probing the governance mechanisms adopted regarding inter-firm relations between the case subsidiaries and local distributors, this study not only addresses the question of how MNEs acquire this location-bound resource, but also advances the extant research by the aspect of network positions. That is, this study indicates that the first-tier distributors hold more relations-based interactions with the case subsidiaries than the lower-tier ones did. Moreover, unlike the reliance on informal relations suggested by extant literature on doing business in emerging economies, it is found that the economic governance mechanisms based on distributor performance have been predominantly adopted by the case subsidiaries.

Thirdly, by investigating how the complementary resources are transferred to the subsidiaries, this work discovers EMNEsø weakness at responding to the host market-oriented subsidiary transformation in terms of resource deployment within MNEs, in particular those resources that have been mostly controlled by headquarters. In addition, the term òmigrating headquartersö, which represents an extreme outcome of subsidiary development, provides novel knowledge to the extant literature on the relocation of MNE headquarters by the perspective of resource circumstances. Moreover, the five components comprising dynamic capabilities in the context of subsidiary transformation are identified through the two case studies as being: capability upgrading, capability leverage, capability building, coordination capability and cooperative capability.

Acknowledgements

The course of my PhD study can be traced back to a research project I participated in 2006, which was regarding Taiwanese enterprises tapping into the host market in China. In the process of interpreting the interviews carried out in China, I pondered how to generate theoretical contributions from the rich data based on business practices, which motivated me to apply for PhD programmes. Fortunately, I got the offer from University of Bath and then commenced my PhD study since August 2008. At that time, I set up some goals to be completed in the following years, including learning solid methodologies in qualitative research, contributing to the theoretical domain of Taiwanese business-based empirical studies as well as learning about British culture. After my five-year PhD study, most of the goals have broadly been achieved, as the present thesis shows, but the learning never ends.

However, a thesis is not an academic challenge tackled by the graduate student alone. Therefore, I must express my gratitude to Prof Klaus Meyer, Prof Michael Mayer, Prof Tainjy Chen, Prof Rudolf Sinkovics, Prof Christian Stadler, Prof Sarah Dixon and Dr Anthony Roath. Your kind supervision, comments and knowledge sharing have greatly been appreciated. To all the informants I interviewed in the past years, your sharing on doing business in China have been one of the most core parts in my PhD research. In addition, I have to say thank you to Max Harris for his professional help in writing.

To John, Rui, Eda, Pat, Katie, Ebru, Luda, Ozlem, Ishan, Steffi, Christina, Lizzie, Farshid and other PhD students in Bath, my PhD life would be pale without your warm friendships. Please forgive me not listing all the names of those who have helped enrich my experience in Bath here, but we must keep in touch. I also would like to express my thankfulness to some local friends in Bath, Wendy, Lenard, Peter and Anne. I will always remember the days staying at your place and having tea on Saturday evenings.

In the end, I am indebted to the scholarship provided by the Taiwanese government and the continuing support from my family, particularly Fiona and Bing.

Chun-Pu Lin

8th, July, 2013 in Taipei

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List of Abbreviations

Abbreviation	Description
BLM	Business Line Manager
CSAs	Country-specific Advantages
DCV	Dynamic Capabilities View
ERP	Enterprise Resource Planning
FDI	Foreign Direct Investment
FSAs	Firm-specific Advantages
EMNEs	Multinational Enterprises from Emerging Economies
HKEX	Hong Kong Stock Exchange
HQ	Headquarters
IT	Information Technology
M&A	Merger and Acquisition
MIS	Management Information Systems
MNE	Multinational Enterprise
PM	Product Manager
RBT	Resource-based Theory
RMB	Renminbi (the name of the Chinese Currency)
RQ	Research Question
SRQ	Sub-level Research Question
SUB	Subsidiary
TWSE	Taiwan Stock Exchange
UA	Unit of Analysis
UNCTAD	United Nations Conference on Trade and Development
VRIO	Valuable, Rare, Imperfectly Imitable and Organisational Involvement

Chapter 1 Introduction

1.1 Introduction

The strategic features of multinational enterprises from emerging economies (EMNEs)¹ have attracted wide attention from academia and practitioners (Aulakh, 2007; BCG, 2006; Mathews, 2006; Narula, 2006; Ramamurti & Singh, 2009; Sauvant, 2008). With regards to the foreign direct investment (FDI) pursued by EMNEs, the common understanding is that they tend to acquire resources by investing in developed economies, whilst exploiting their ownership assets by tapping into the host markets of other emerging economies (Luo & Tung, 2007; Mathews, 2006; Ramamurti & Singh, 2009; UNCTAD, 2006). Therefore, the internationalisation theory which indicates that MNEs always commence foreign expansion by exploiting their ownership assets in neighbouring countries (Johanson & Vahlne, 1977) has been considered holding limited explanatory power upon EMNE FDI (Li, 2003). That is, the internationalisation process of EMNEs, which is driven by asset-augmentation, has not been addressed by this theory.

By contrast, EMNEs investing in other emerging economies are mostly market-seeking or resource-seeking orientated (UNCTAD, 2006), which can be explained by internationalisation theory given its exploitative nature (Cuervo-Cazurra & Genc, 2008; del Sol & Kogan, 2007). However, owing to the regulatory constraints on host market-seeking FDI and the limited consumption power of local consumers, most emerging economies did not attract market-seeking FDI right from the beginning. For instance, the Chinese government's policy regime of FDI was only transformed from 'export-promotion FDI' into 'exchanging advanced technologies by opening up the domestic market to foreign investors' in 1991 and subsequently, market-seeking inward FDI increased substantially (Buckley & Meng, 2005, p.115). Beyond the shift in the types of FDI which the host country intends to attract, there is a field that merits scholarly investigation. That is, how the MNEs' subsidiaries in the emerging economies have coped with the changes in their market orientation, which has happened because of the more accessible and rising host market. In particular, their

¹ In this study, the definition of emerging economies follows that of Hoskisson et al. (2000), which includes 51 rapid-growth developing countries and 13 transition economies.

resource bases have had to be reconfigured so as to fit with the new strategic positioning different from that initially assigned by headquarters, e.g. abandoning the historical resources, acquiring the desired new ones from the host country or transferring them from headquarters. On this basis, this study aims to unveil this process of resource reconfiguration undertaken by subsidiaries of MNEs, particularly in the context of an EMNE extensively explored the domestic market of host country, which location was positioned to operate the export-oriented business at the beginning.

Given this focus of investigation, theoretically, the literature on subsidiary (Birkinshaw, 2001; Birkinshaw & Hood, 1998b) and the dynamic capabilities view (DCV) (Helfat, et al., 2007; Teece, Pisano, & Shuen, 1997) are identified as the most relevant theoretical fields. First, the model of subsidiary development indicated by Birkinshaw and Hood (1998c) provides a basic structure of analysis for this study, comprising three elements: subsidiary organisations, headquarters and host environments (Birkinshaw & Hood, 1998a, c). In a similar vein, the network perspective of MNEs (Andersson & Forsgren, 2000; Andersson, Forsgren, & Holm, 2002; Forsgren, Holm, & Johanson, 2005; Meyer, Mudambi, & Narula, 2011), which highlights the multiple embeddedness of MNEs involving relationships with actors within these organisations and with external actors in the host country, also provides the theoretical foundation for this study.

On the other hand, the dynamic capabilities view which main concern is regarding how organisations overcome the limitations of existing resource bases by reconfiguring them (Ambrosini, Bowman, & Collier, 2009; Eisenhardt & Martin, 2000; Helfat, et al., 2007; Teece, et al., 1997; Winter, 2003; Zahra, Sapienza, & Davidsson, 2006) is identified as another main stream of literature related to this study. Beyond DCV's broad attention paid on the resource bases in an evolutionary manner, the organisational initiatives related to resource reconfiguration are adopted to frame the analysis structure. That is, capability (or resource) leverage and capability (or resource) building are employed by organisations to refer to exploiting their historical resources as well as developing new ones (Luo, 2002; Tallman, 2001, 2009). Inspired by the abovementioned literature, a preliminary conceptual framework is developed, consisting of three main aspects: the resource bases of subsidiary organisations, inter-firm relations with external actors in the host environment, and headquarters-

subsidiary relationships. The findings of this study are expected to elaborate the preliminary framework coupled with the propositions reflecting the contextual explanations of subsidiary transformation.

Contextually, Taiwanese MNEs investing in China that have undertaken a transformation from export-orientation to local market-orientation in their strategic positioning provide a suitable context. Being contract manufacturers for brand marketers, their subsidiaries in China when trying to penetrate into the host market hold the advantage of efficient manufacturing, but lack local marketing competences (Wu, Sinkovics, Cavusgil, & Roath, 2007). Hence, during the transformation process, how they have addressed the resource deficiency so as to tap into the Chinese market is the main research question of this study.

This chapter is structured as follows. Section 1.2 further describes the research background of this study and subsequent to the empirical context introduced in section 1.3, the research questions are outlined in section 1.4. Finally, the content of each chapter in this thesis will be briefly presented in section 1.5.

1.2 Research background

Identifying the distinctive features of internationalisation strategies conducted by EMNEs has attracted wide attention from researchers and practitioners (BCG, 2006; Luo & Tung, 2007; Mathews, 2006; Ramamurti & Singh, 2009; Sauvant, 2008; UNCTAD, 2006). In particular, given that EMNEs do not hold the ownership assets that global MNEs possess, such as advanced technologies or renowned brand names (Dunning, Hoesel, & Narula, 1998; Lall, 1983), their internationalisation processes cannot be entirely explained by the asset exploitation-oriented internationalisation theory (Johanson & Vahlne, 1977). Regarding this, the commonly acknowledged position is that EMNEs, seek the required resources, or adopt asset-augmentation strategies as they invest in developed economies, whilst exploiting their ownership assets, when investing in developing economies (including emerging economies). According to a survey by United Nations Conference on Trade and Development (UNCTAD) (2006), the FDI from developing countries targeted at other developing

economies has largely had a market-seeking or a resource-seeking orientation (UNCTAD, 2006). In this sense, EMNEs adopt exploration and exploitation strategies simultaneously, which is one of the main features distinctive from how conventional MNEs behave (Guillén & García-Canal, 2009; Luo & Rui, 2009). Consequently, focusing on the ways in which EMNEs acquire resources in developed countries, recent studies have indicated that the staged feature proposed by internationalisation theorists cannot sufficiently explain the course of FDI pursued by these entities (Luo & Tung, 2007; Mathews, 2006).

In contrast, the FDI undertaken by EMNEs targeting other emerging economies has been considered as being properly explained by the existing internationalisation theory and has received less attention in the literature (Cuervo-Cazurra & Genc, 2008; del Sol & Kogan, 2007). That is, EMNEs are expected to penetrate into the host markets of other emerging economies by exploiting their ownership assets. However, further scrutiny of the market conditions of emerging economies and the resource circumstances of EMNEs, reveals that their investment abroad did not target the host market right from the beginning (Wilkins, 1998). This is because the regulatory constraints on host market-oriented FDI meant most emerging economies did not hold market potential until the 1990s. Instead, most MNEs sought to utilise cheap labour forces or acquire natural resources when they invested in emerging economies. Moreover, EMNEs did not possess the ownership assets that are beneficial for their entering into foreign markets, such as renowned brand names and therefore, the resource bases of their subsidiaries had to be reconfigured when they attempted to tap into the host markets of emerging economies. In sum, this study offers empirical research into firms from emerging economies entering other such economies (Wright, Filatotchev, Hoskisson, & Peng, 2005), particularly the process of transforming the subsidiaries' positioning from export-oriented into host market-oriented after the initial stage of FDI.

A foreign subsidiary² has been defined as an organisational unit which operates value-adding activities outside of an MNE's home economy (Birkinshaw, 2001). One typical feature of such entities, from an organisational perspective, is that they are

² In this thesis, a subsidiary refers to an organisational unit established in a foreign country, which is controlled by its parent country, without 'foreign' being added before 'subsidiary'.

subordinate to parent companies, but geographically located in environments different from their headquarters (Westney & Zaheer, 2001). Taking a network perspective (Andersson, et al., 2002; Forsgren, et al., 2005; Meyer, et al., 2011), a subsidiary is embedded in the internal and external networks at the same time. The former refers to the headquarters-subsidiary and cross-subsidiary relationships within MNEs, whilst the latter refers to the local business networks in the host countries. As a consequence of this latter role, it is necessary to consider the aspects outside the subsidiary organisations when investigating the process of their transformation. However, there is relatively limited understanding of the role of external partners in subsidiary development (Schmid & Schurig, 2003).

When it comes to how organisations reconfigure their resource bases so as to cope with environmental changes, the proponents of dynamic capabilities view (Ambrosini, et al., 2009; Eisenhardt & Martin, 2000; Helfat, et al., 2007; Teece, et al., 1997; Winter, 2003; Zahra, et al., 2006) have explored how the organisational resources and capabilities were modified, integrated, created, or even discarded. As a subfield of the resource-based theory (RBT), the DCV is expected to be able to address the static and inward-looking nature of RBT (Lavie, 2006b; Priem & Butler, 2001). Given that the resource reconfiguration derived from subsidiary transformation is the main subject investigated in this study, DCV is adopted to unveil how a foreign subsidiary of an EMNE addresses its inappropriate resource base so as to capture host market business. In addition, the lack of local marketing competences together with the institutional voids of the host environment (Khanna, Palepu, & Sinha, 2005) mean that the subsidiaries of EMNEs have to engage with adapting their resources from the internal and external perspectives, simultaneously.

Moreover, the investigation into the interactions between subsidiaries and their host environments is extended to consider the resource flows between headquarters and subsidiaries. Regarding this, beyond the forward resource flows, subsidiaries have been recognised as being capable of contributing resources back to headquarters and other subsidiaries (Birkinshaw & Hood, 1998b; Birkinshaw, Hood, & Young, 2005). In particular, recent literature has shown the significance of knowledge generated by the subsidiary, identifying various determinants leading to these reverse knowledge transfers, such as the effective strategic role of the subsidiary and its high level of

knowledge relevance to headquarters (Ambos, Ambos, & Schlegelmilch, 2006; Yang, Mudambi, & Meyer, 2008). How the host environment-embedded knowledge, such as the marketing capabilities, is transferred to headquarters and contributes to business global strategies, merits further exploration.

1.3 Empirical context: Taiwanese MNE subsidiaries in China

Given the research background indicated above, the manufacturing-based MNEs from East Asian newly-industrialised economies, such as: Korea, Taiwan and Hong Kong, provide a valid context for investigation. The reason is that their subsidiaries set up in other emerging economies, such as China, were initially positioned as assembly lines for reducing production costs under contract manufacturing business. This feature of export-orientation is distinctive from other investors heading to China, particularly those from non-Chinese Western countries (Wang, Clegg, & Kafourous, 2009). However, although benefiting from the cheap labour force accessed in the host countries and exploiting their advantages in efficient manufacturing, they had lacked the marketing-related capabilities (Buckley & Meng, 2005; Wells, 2009) when they later transformed and tapped into the host markets.

On this basis, investigating how the MNEs' subsidiaries investing in China have undertaken host market-orientated transformation can help shed light on the impact of a volatile environment on dynamic capabilities building (Luo, 2007). Given the export-promotion strategies conducted by the Chinese government together with the restrictions on FDI targeted at host market, most of the initial inward FDI into China was export-oriented (Buckley & Meng, 2005). However, with the gradually opening up of the domestic market to foreign investors since 1992, the market-oriented inward FDI of China has increased³. Moreover, the rising consumption power of the Chinese consumer has been the driver behind the recent influx of foreign investment with host-market orientation. It is estimated that the number of middle class households in China will increase to 100 million in 2016 from 35 million in 2006 (MasterCard-Worldwide, 2007). Taking Taiwanese MNEs as examples, in order to seize the

³ Take the automobile market of China for an instance, Chinese sales were forecasted to reach 17 million in 2010, a 25% increase from 13.6 million in 2009. Consequently, global automakers investing in China, such as Volkswagen and General Motors, raised their forecasts for car sales in this the world's biggest vehicle market (12/APR/2010, *Financial Times*). Moreover, BMW (China) and its joint venture company are building up their second factory to meet the growing demand in China and the estimated investment amount is RMB 5 billion (\$732million) (12/NOV/2009, *Financial Times*).

business opportunities of the host market in China, most of the originally export orientated subsidiaries have begun to shift into being host market-oriented entities (as indicated in table 1.1). A survey by Buckley and Meng (2005) pointed out that many MNE subsidiaries are managing dual orientations: export-orientated and Chinese domestic market-orientated FDI simultaneously also provides evidence of support for this trend.

Table 1.1 Comparison of market distribution of Taiwanese MNEs' subsidiaries in 1995 and 2006

Pattern Country	Sell to Host Market		Export to Third County Markets		Sell Back to Home (Taiwanese) Market	
	1995	2006	1995	2006	1995	2006
USA	68.38	71.43	22.77	17.99	8.85	10.58
Western Europe	79.25	80.73	20.13	18.36	0.63	0.91
Japan	72.00	81.42	24.00	13.75	4.00	4.83
China	39.00	53.00	50.59	32.18	10.41	14.82
Hong Kong	40.00	41.31	52.49	38.25	7.51	20.44
Singapore	44.92	66.82	52.77	29.55	2.31	3.64
Malaysia	42.32	77.90	47.77	9.38	9.90	12.71
Indonesia	46.74	39.88	36.80	45.82	16.46	14.29
Thailand	50.13	33.46	38.02	49.57	11.85	16.96
Vietnam	24.03	49.16	48.23	34.84	27.74	16.00

Source: Industrial Development Bureau, Ministry of Economic Affairs (Taiwan) (1996 & 2007), *Report on Operations Strategies of the Manufactures*

In fact, Taiwanese MNEs represent a significant group of export-oriented overseas Chinese businesses investing in China. Being the main subcontracted manufacturers for global brand marketers under the original equipment manufacturing (OEM) business model, the Taiwanese MNEs were requested by their clients to achieve their requirements in producing products, in terms of: speed, flexibility and competitive pricing. Hence, such companies were highly sensitive to changes in production cost and this is the critical reason why most initiated their FDI throughout Southeast Asia and China, at the end of the 1980s, when there was a hike in cost of manufacturing products in Taiwan.

Nowadays China is the largest recipient of Taiwanese outward FDI and according to Taiwanese government statistics, by 2008 had attracted US\$75.55 billion or 55.83% of Taiwanese outward FDI in stock. Most Taiwanese MNEs invested in China because of its comparatively low production costs by utilising this resource circumstance and then manufacturing products for clients. However, external conditions have led increasing numbers of Taiwanese MNEs subsidiaries in China to change their initial orientation. For example, the Chinese government has gradually terminated the incentives for export-oriented investment projects, thus pushing up production costs. In addition, a series of measures regarding consumption encouragement, imposed by the Chinese government, have increasingly fuelled the attention of foreign investors towards the domestic market in China. As a result, subsidiaries of Taiwanese MNEs in China have progressively geared themselves for local market-orientation, seeing their presence in the Chinese market as being increasingly attractive.

However, for those EMNEs and their subsidiaries of an export-oriented nature, two main challenges arose when they attempted to involve themselves in the domestic market of an emerging economy. The first relates the resource circumstances of the subsidiaries set up by Taiwanese MNEs in China. As the subsidiaries originally sought for lower product cost with limited marketing resources, their resource bases have had to be adjusted towards a host market-seeking orientation. That is, although they have been subcontractors for global brand marketers with their strong manufacturing advantages, their exploration of host market in China has been impeded by the lack of marketing resources such as global brands (Dunning, et al., 1998). The other major obstacle is the difficulty in acquiring the context-specific, or network- and relationship-based resources (Meyer & Peng, 2005; Peng & Heath, 1996), such as with the agents controlling the complicated distribution channels. Regarding this, foreign investors have faced high transaction costs caused by the complicated distribution system in China (Buckley & Meng, 2005; Hennart, 2009; Herndon, 2011), which was not helped by their lack of knowledge in relation to how to find the appropriate distributors (Luk, Xu, & Ye, 1998). Hence, it can be seen that the challenges of those subsidiaries that have attempted to pursue host market-seeking orientation have concerned both resource acquisition and the external conditions.

With regard to the issue as to whether Taiwanese MNEs are appropriate for being categorised as EMNEs, this researcher contends that the categorisation is suitable given the time period covered in this study is supported by related literature. That is, in works published in the early 2000s (e.g. Hoskisson, Eden, Lau, & Wright, 2000; Wright, et al., 2005) and statistics by UNCTAD, Taiwan and its MNEs were held to have features of EEs and EMNEs, along with Korea. Hence, although Taiwan is not considered to be amongst the emerging economies in recent literature (Jormanainen & Koveshnikov, 2012) or now identified as an 'having emerged' one (Xu & Meyer, 2012) or 'mid-range' emerging economy (Hoskisson, Wright, Filatotchev, & Peng, 2012), due to its growth in economic development, its background as once being so allows for generalising their findings to the EMNEs facing similar challenges. However, caution needs to be taken as the scope of generalisation is limited. Nevertheless, the empirical studies grounded in Taiwanese MNEs contained in this thesis are expected to provide knowledge regarding those EMNEs encountering resource deficiency, limited support from home country institutions and small home market (Hsu, Lien, & Chen, 2013). Moreover, some other Taiwanese MNE-based studies with similar intention regarding generalisation have provided support for the underpinning *raison d'être* for this PhD (e.g. Chang, Mellahi, & Wilkinson, 2009; Chiao, Lo, & Yu, 2010).

1.4 Research questions

The aim of this study is to explore the process of resource reconfiguration in the context of subsidiary transformation of EMNEs investing in emerging economies. Given that the subsidiaries were set up, initially, to be export-orientated, their resource bases need to be reconfigured for operating in the host market. Grounded on the extant theories with respect to this main research question (RQ), e.g. subsidiary development and the embeddedness concept of MNEs, this study further seeks to investigate the three aspects of 'subsidiary organisation', 'inter-firm relations' and 'headquarters-subsidiary relationships' (the context of which in relation to the underpinning theory is shown in figure 1.1):

Main research question: How does the subsidiary of an EMNE reconfigure its resource base when its strategic positioning is changed so as to explore the host market?

Sub-level research questions (SRQs):

- (1) How does the subsidiary of an EMNE tackle its historical resources and newly-developed capabilities, referring to existing and new business models respectively?
- (2) How does the subsidiary of an EMNE establish and govern the inter-firm relations with external actors in the host environment so as to explore the host market?
- (3) How do the headquarters (HQ) - subsidiary (SUB) relationships of an EMNE change in response to a host market-seeking oriented subsidiary transformation?

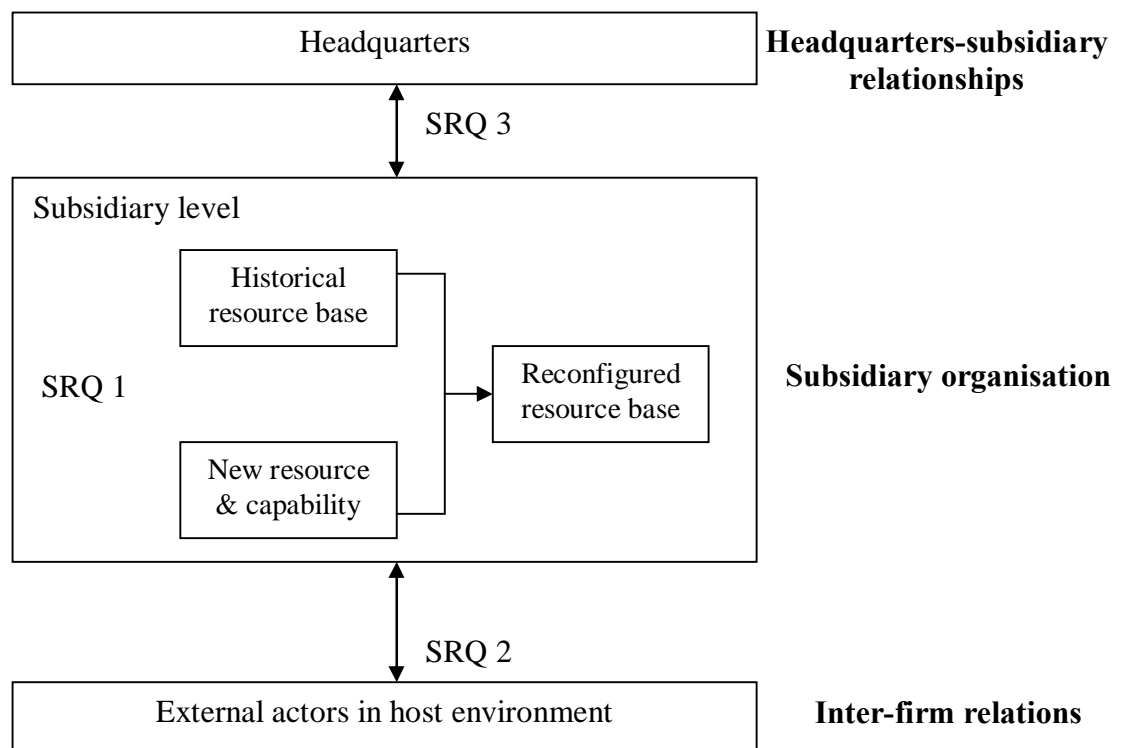


Figure 1.1 Relationships between the theoretical perspectives and the research questions

1.5 Outline of the thesis

This thesis contains eight chapters, with the empirical findings being presented in chapters 5 to 7, covering the three main aspects of the investigation: the resource bases of subsidiary organisations, inter-firm relations with external actors in the host environment, and headquarters-subsidiary relationships. The structure of this thesis is illustrated in figure 1.2.

Chapter 2 Literature review and conceptual framework

This chapter reviews the related literature in order to pinpoint the position of this study from a theoretical perspective, i.e. subsidiary development and the DCV. Moreover, relevant empirical studies are briefly reviewed. Subsequently, through combining the reviews on theoretical and empirical literature, a preliminary conceptualised framework is presented at the end of this chapter.

Chapter 3 Methodology

This chapter explains the methodological considerations in relation to qualitative multiple-case studies, the main approach used in this work. In particular, the process of data collection, data analysis, and the ethical issues elicited from carrying out interviews are discussed. Moreover, after reviewing the practices regarding the modes of presentation employed in multiple-case studies published in leading management journals, those applied in this study are explained and justified.

Chapter 4 Overview of the two case companies

Following the structure of the analysis developed in chapter 2, the trajectories of two cases of Taiwanese MNE subsidiary transformation are presented, providing the contextual background for the following three chapters.

Chapter 5 Reconfiguring the resource bases of subsidiaries for a host market-seeking transformation

This chapter addresses how the subsidiaries of case companies have reconfigured their resource bases in order to cope with a shift to a host market orientation. In particular, capability leverage and capability building are the two types of organisational

initiatives investigated, which refer to the historical contract manufacturing-based resources and newly-built marketing competences, respectively.

Chapter 6 Managing the inter-firm relations between subsidiaries and distributors

This chapter explores the nature of inter-firm relations with distributors during the resource reconfiguration process of the case subsidiaries and the topics investigated include distributor selection and governance mechanisms. Moreover, the evolution of inter-firm relations with the distributors in terms of their response to the growing marketing resources held by the case subsidiaries such as brand strengths is also explored.

Chapter 7 Headquarters-subsidiary relationships

This chapter investigates the resource deployment within MNEs in the process of subsidiary transformation and two distinctive patterns of change associated with headquarters-subsidiary relationships are generated from the case studies.

Chapter 8 Conclusion

This chapter firstly summarises the findings of case studies according to the three aspects of the investigation and this is followed by consideration of the: theoretical contributions of this research, limitations, direction for future studies and managerial implications.

The interview protocol and a list of informants participating in this study are provided in the appendices.

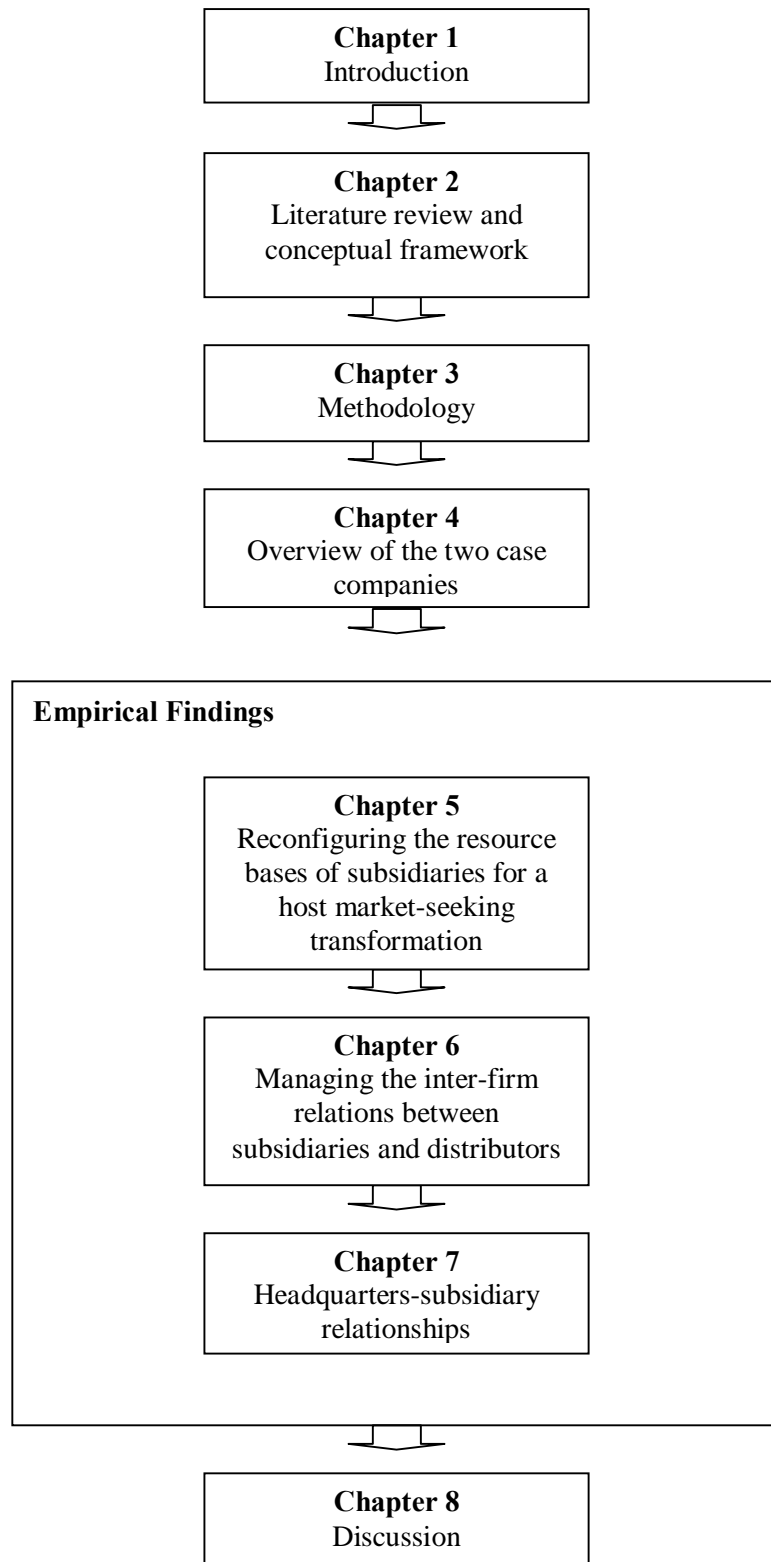


Figure 1.2 Structure of the thesis

Chapter 2 Literature review and conceptual framework

2.1 Introduction

In the field of international business, one phenomenon recently attracting attention from academia and practitioners has been the arrival on the world stage of a unique group of MNEs from emerging economies (EMNEs) (Aulakh, 2007; BCG, 2006; Johanson & Vahlne, 1977; Luo & Tung, 2007; Madhok & Keyhani, 2012; Mathews, 2006; Narula, 2006; Ramamurti & Singh, 2009; Rugman, 2009; Sauvant, 2008; UNCTAD, 2006). In particular, the nature of the outward foreign direct investment (FDI) pursued by these EMNEs has been the focus of investigation and the main debate in the literature is whether internationalisation theory (Johanson & Vahlne, 1977) can adequately explain the FDI trajectories of these companies. Regarding this conceptual understanding, it argues that businesses start entering foreign markets that are geographically or psychologically close to their home country and subsequently outwardly exploit their ownership assets in a stepwise pattern. However, unlike Western MNEs, the EMNEs which have faced resource deficiency such as in relation to advanced technologies and brand recognition (Dunning, et al., 1998) and so pursue FDI with the goal of acquiring them. This exploration-oriented FDI has been neglected by internationalisation theory, which is grounded in the assumption of asset-exploitation (Luo & Tung, 2007; Mathews, 2006).

Scholars have further investigated the ways that EMNEs have responded to the aforementioned circumstances when conducting FDI (Cantwell & Barnard, 2008; Dunning, Kim, & Park, 2008; Rugman, 2009). These studies have largely been based on the conceptual framework proposed by Rugman (1981), structured by a pair of concepts: country-specific advantages (CSAs) and firm-specific advantages (FSAs). The former refers to the natural factor endowments of a country; while the latter represents the managerial resources controlled by firms (Rugman, 1981). Assumed to be lacking FSAs, foreign investment by EMNEs has been interpreted as mainly grounded in their home-CSAs, such as acquiring resources abroad under financial support provided by the home government. Moreover, it has been argued that through conducting FDI, EMNEs gradually elevate their FSAs so as to move forward to the mature stage of internationalisation (Ramamurti, 2009). By contrast, other scholars

have indicated that EMNEs do possess FSAs, but they are distinct from those of Western MNEs, i.e. efficient manufacturing (Mathews, 2006), technology adaptation (Lall, 1983) and networking skills (Buckley, et al., 2007). Accordingly, under this lens it is contended that EMNE FDI has been motivated not only by asset-exploration, but also asset-exploitation.

When it comes to the recipient locations of EMNE FDI, a survey by UNCTAD (2006) shows that EMNEs have pursued FDI in developed countries with the aim of acquiring resources, whilst undertaking market-seeking or resource-seeking FDI in developing countries. However, most emerging economies have not been markets with great potential until the last decade owing to the regulative constraints imposed by host governments on host market-seeking FDI (Wilkins, 1998). For those MNEs who set up subsidiaries in emerging economies before the opening of host markets, their strategic positioning was changed when they captured the business opportunities caused by market opening. Taking two Taiwanese MNEs that transformed their subsidiaries in China from export-orientation to host market-orientation as case companies, this study investigates how they undertook this transformation.

Extant research on headquarters-subsidiary relationships provides an integral framework to investigate the process of subsidiary transformation, which is structured by multiple embeddedness encompassing the intra-organisational and inter-organisational relations of MNEs (Andersson, et al., 2002; Birkinshaw & Hood, 1998c; Forsgren, et al., 2005; Meyer, et al., 2011). The transformation of MNE subsidiaries has reflected an interwoven relation with headquarters and external actors in host countries. In addition, the immediate challenge that such subsidiaries encounter when embarking on transformation is a resource gap, whereby the existing resource bases are not sufficient to handle their changed strategic positioning. In order to address this resource deficiency, they need to leverage, develop or even abandon their resources and capabilities.

From a theoretical perspective, these initiatives employed by MNEs are the core concerns of the dynamic capabilities view (DCV) (Ambrosini, et al., 2009; Eisenhardt & Martin, 2000; Helfat, et al., 2007; Teece, et al., 1997; Zahra, et al., 2006) and as an emerging offshoot of resource-based theory, the core concept is to address the static and inward-looking nature of the earlier theory (Lavie, 2006a). However, as a

developing theoretical stream in its infant stage (Helfat & Peteraf, 2009), the extant conceptualisation of DCV has not sufficiently provided an analysis framework for investigating the resource reconfiguration process of organisations. Echoing the suggestion of integrating complementary theories with DCV (Ambrosini & Bowman, 2009), the concepts of capability (or resource) leverage and capability (or resource) building (Tallman, 2001, 2009) as well as the relational view (Dyer & Singh, 1998; Gulati, 2007; Gulati, Nohria, & Zaheer, 2000) are included here as additional theoretical perspectives.

In sum, the main intention of this study is to refine the preliminary conceptual framework regarding subsidiary transformation, which is structured by related theories in the fields of international business and strategic management. Moreover, a set of propositions will be generated to identify the features of subsidiary transformation occurring in the context of manufacturing-based EMNEs targeting the host markets after the initial phase of FDI.

This chapter is organised as follows. Grounded in the research questions and context indicated in the previous chapter, the theoretical streams which will be sequentially reviewed in sections 2.2 to 2.4 include: FDI pursued by EMNEs (particularly in the context of those investing in other emerging economies), subsidiary development and the dynamic capabilities view. Moreover, two complementary perspectives to DCV will be additionally introduced in section 2.4: (1) resource reconfiguration by capability (or resource) leverage and capability (or resource) building in relation to historical resources and newly-developed ones, respectively (Tallman, 2001, 2009); and (2) extending the sources of competitive advantages to outside the boundaries of organisations, in other words the relational view (Dyer & Singh, 1998; Gulati, et al., 2000). Lastly, in section 2.5, the chapter is concluded with presentation of a preliminary framework, which draws upon the conceptualisation generated from the literature review.

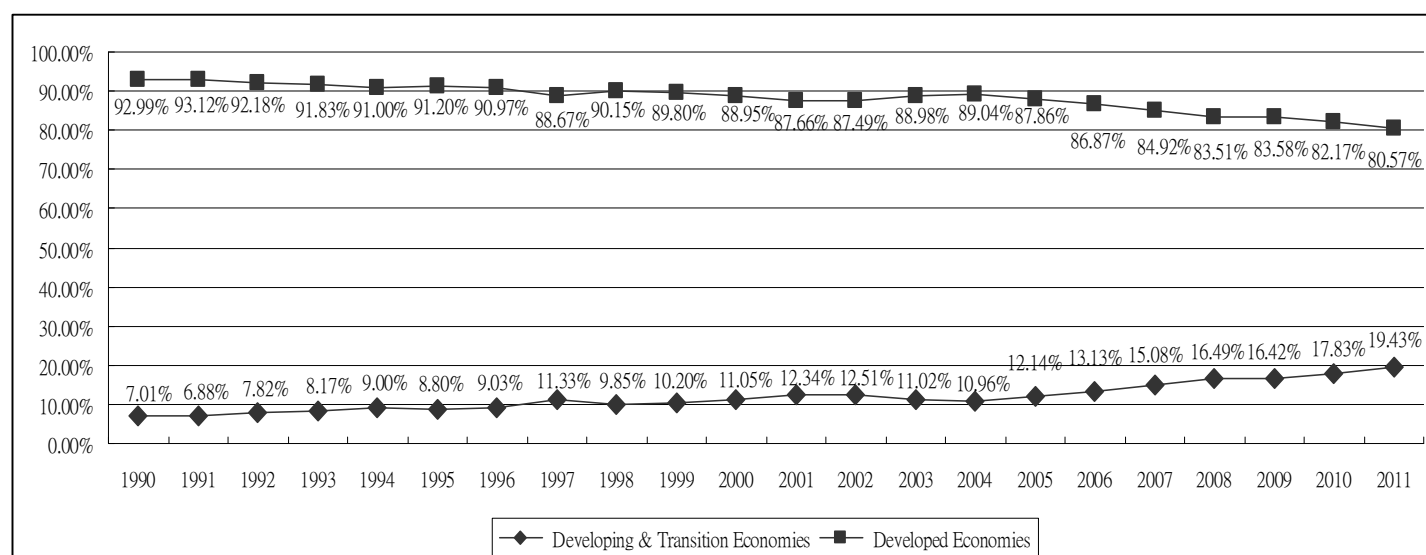
Notably, sections 2.4.1 and 2.4.2 regarding the essence of inter-firm relations and the mechanisms adopted to govern them are the sub-level concepts generated from the process of data analysis. That is, the researcher additionally introduced these two aspects based on the theoretical constructs that emerged during the coding process. That is, being as a qualitative study with exploratory feature, the literature

review of this research included concepts developed at the *ex-post* stage, rather than having them finalised before collecting and analysing data.

2.2 Literature review part I: Foreign direct investment by MNEs from emerging economies (EMNEs)

2.2.1 General trend of FDI by EMNEs

Pursuing investment in foreign countries has been considered as one of the key practices of business internationalisation. Although the capital from developed countries has dominated global FDI, the importance of that from non-developed countries has risen in the last few decades. According to the latest statistics by the UNCTAD (2012), which are shown in figure 2.1, the amount of FDI from developing countries and economies in transition has been increasing in terms of its share of global FDI, and in fact, the percentage reached 19.43% of the global stock of outward FDI (equivalent to US\$4.11 trillion) in 2011 (UNCTAD, 2012).



Source: UNCTAD, 2012

Figure 2.1 Proportion of outward FDI stock by type of economy, 1990-2011

The research on FDI from emerging economies can be traced back to the beginning of 1980s, when scholars named this new group of MNEs as the Third World Multinationals (TWMNEs) (Lall, 1983; Wells, 1983). There are two generally acknowledged waves of FDI from TWMNEs, dominated first by Latin American countries and then by East Asian MNEs. During the former stage, the FDI of TWMNEs was mainly conducted by state-owned conglomerates with resource-seeking orientation. However, the subsequent wave of FDI from East Asian countries since the 1980s involved multinational enterprises, particularly those in the manufacturing sectors (Dunning, et al., 1998).

2.2.2 Explanation for the trend of outward FDI by EMNEs

The internationalisation process model states that MNEs start their FDI by selling their products in high-proximity locations and then extend it to other functions, such as manufacturing (Johanson & Vahlne, 1977). Grounded in the assumption that MNEs hold ownership assets in home countries, foreign investment is perceived as an outward exploitation of what they possess. Incorporating the ownership assets with the locational and internalisation perspectives, the eclectic paradigm (Dunning, 1988, 1977) provides an effective analysis framework in relation to FDI. That is, MNEs overcome the disadvantages of operating in foreign countries (Zaheer, 1995) through exploiting their ownership advantages coupled with utilising the location-bound advantages in them. Moreover, if they don't invest abroad and only adopt arms-length arrangements e.g. exports or licensing, they are unable to generate higher profits.

However, the exploitation-driven assumption of internationalisation theory has attracted criticism over its insufficiency to explain FDI from EMNEs that lack the ownership assets which Western MNEs hold, in particular, advanced technologies and renowned brand names (Dunning, et al., 1998). Researchers further explored how EMNEs have addressed this resource gap and based on three cases, Mathews (2006) indicated that they are more likely to adopt: linkage, leverage and learning strategies to overcome their weaknesses in ownership assets. Similarly, Luo and Tung (2007) coined the term springboard to capture that the features of EMNE FDI are mainly for augmenting resources abroad. In the same vein, several empirical studies on Asian MNEs have pointed out that EMNEs conducted resource-seeking FDI exhibiting a

leapfrogging feature, rather than stepwise expansion, starting by selling products in neighbouring countries (Li, 2003; Makino, Lau, & Yeh, 2002; Sim & Pandian, 2003).

Subsequently, the increasing numbers of merger and acquisition (M&A) projects conducted by EMNEs attracted wide attention from academia, e.g. Indian Tata Motors acquiring the Jaguar and Land Rover brands from Ford in 2008. This further provoked the debate regarding whether the extant theories are sufficient for explaining the foreign operations of EMNEs. Papers included in two collections edited by Sauvant (2008) and Ramamurti & Singh (2009) are representative for unearthing the driving forces behind rapidly growing EMNEs. Based on M&A Statistical Data issued by UNCTAD, Cantwell et al. (2008) found that the EMNEs' FDI was largely grounded in home country locational advantages. Similarly, analysing the top 500 leading MNEs ranked by Fortune magazine, Rugman (2009) pointed out that most are regional MNEs, in essence, or mainly operating business in neighbouring countries within the same region. Building upon his earlier framework of FSAs and CSAs (Rugman, 1981), he further revealed that most EMNEs have exploited the CSAs of home countries when pursuing FDI, rather than their FSAs. That is, they have relied upon the abundant natural resources, e.g. labour force or government funding to become global players as low-price leaders or acquirers of brand names. However, lacking knowledge-based managerial integration, EMNEs appear to have been facing difficulties in developing sustainable FSAs (Rugman, 1981).

Unlike the above argument, which assumes that EMNEs hold no FSAs, some scholars have indicated that they do possess them, but that they are distinctly different from those that Western MNEs hold. For instance, Ramamurti (2009a) maintained that EMNEs own FSAs in adapting imported technology to host markets, rationalising the production procedure, controlling the key access to resources, and/or agilely adjusting to the adverse environment. Moreover, as infant MNEs, these FSAs are expected gradually to replace home-CSAs as the main assets being exploited abroad. Similarly, some empirical studies on EMNE FDI have pointed to the FSAs held by EMNEs as being: efficient manufacturing (Mathews, 2006), technology adaptation (Lall, 1983) and networking skills (Buckley, et al., 2007). In other words, EMNEs not

only acquire (or develop) ownership assets during foreign expansion, but also exploit the distinctive types of ownership assets.

2.2.3 Outward FDI from EMNEs and subsidiary transformation

Extending from the concerns regarding rising outward FDI pursued by EMNEs and whether they hold FSAs for supporting the foreign expansion, this subsection identifies the research gap from an evolutionary perspective, for most of the extant scholarship of FDI pursued by EMNEs has been grounded in single time spot-based research. For instance, regarding the outcomes of survey carried out by UNCTAD (2006), it is observed that EMNEs have mostly explored resources when they invest in developed countries, whilst at the same time exploiting their FSAs with market-seeking or resource-seeking motives as they invested in developing ones. However, it may be the case that EMNEs that have been investing in the emerging economies for a period of time now have different FDI patterns to those set out at the beginning. That is, taking emerging economies into account, before the 1990s, most of them were only part of the market portfolios of MNEs, rather than being the target market (Wilkins, 1998). This has now changed, because MNEs recognised the great potential of emerging economies domestic and so raised their importance amongst business global strategies. Therefore, shedding light on the changes in MNE foreign operations during the after-entry period (Benito, Petersen, & Welch, 2009) is merited so as to capture the essence of strategies that go beyond just mode selection.

In relation to the evolutionary process of foreign operations, the subsidiaries set up in host countries by MNEs are considered as the main agents for carrying out this whole process. Consequently, exploring how their resource bases were initially set up and subsequently reconfigured, is critical if the nature of their evolving foreign operations is to be uncovered. MNEs might undertake evolutionary foreign operations by setting up other subsidiaries or conducting other FDI modes in the same host country, e.g. through mergers and acquisitions. However, these circumstances are equivalent to setting up new organisational units from scratch and resource reconfigurations that are of relevance to the existing subsidiaries do not come into play to the same extent. Nevertheless, for EMNEs subsidiary development is a common feature of their investment trajectory and hence, a valid focus for research.

2.2.4 Discussion

As a theory grounded in FDI conducted by MNEs from developed countries, internationalisation theory has been challenged with regards to whether it is suitable for explaining EMNE FDI, which featured as initially being short of advanced technologies and renowned brands. The debates generally encompass three aspects: the motive for FDI, the role of home-CSAs and the distinctive ownership assets held by EMNEs.

Asset-augmentation FDI is commonly acknowledged as playing an important role in the literature on the motives for foreign investment by EMNEs. That is, to address their resource deficiencies they have acquired technological and marketing resources in developed countries. As such, EMNE FDI is another internationalisation type, which holds exploration and leapfrogging features (Li, 2003). In relation to the ownership assets which EMNEs possess, some scholars have argued that EMNEs have largely relied on home-CSAs with limited ownership assets (Ramamurti, 2009; Rugman, 2009), whereas other studies have identified the distinctive ownership assets underlying EMNE FDI (Guillén & García-Canal, 2009).

With regard to the debate on whether EMNEs hold ownership assets as they pursue FDI, or merely exploit the home-CSAs, we argue that EMNEs are unable to go abroad by merely relying on the CSAs in their home countries. Even for EMNEs from a country whose government provides financial support for their foreign investment, the individual company still needs to exploit its ownership assets in order to access the financial support, e.g. its competitive status among other domestic companies or connections to government agencies. Therefore, ownership assets are fundamental to all types of MNEs when undertaking foreign operations (Ramamurti, 2012). Moreover, it is also suggested that the focus of research should be placed on how the ownership assets are aligned with the foreign operation of EMNEs as is the case in this study. That is, by focusing on EMNEs investing in other emerging economies that have transformed their subsidiaries from export-orientation to host market-orientation, the aim is to unveil how the ownership assets (or resource bases) of subsidiaries have been reconfigured. On the other hand, host market-seeking transformation at subsidiary-level also represents refocusing on the locational circumstances in host

country, which is in line with the recent advocacy regarding exploring the role of location in the internationalisation process (Hennart, 2009; Narula & Santangelo, 2012).

2.3 Literature review part II: Subsidiary development

2.3.1 Overview: Subsidiary management in international business

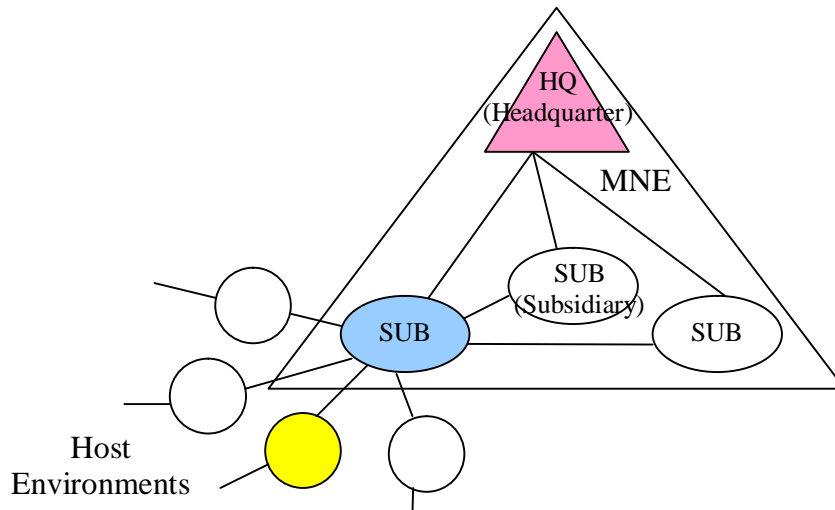
In the international business field, the literature associated with MNE subsidiaries can be traced back to the early 1980s and it includes three main subfields: the headquarters-subsidiary relationship, subsidiary role and subsidiary development (Birkinshaw & Hood, 1998a). However, these three subfields are interlinked and not easily separated and hence, it is common to find the research in this arena involving the integration of two or more. In addition, the empirical studies on subsidiary management have not brought forth strong theoretical underpinning to the subject matter due to their descriptive nature (Birkinshaw, 2001). Nevertheless, this structure encompassing the three abovementioned subfields is still insightful for positioning the main scenario of this study: subsidiary transformation in the theoretical context.

With regard to the studies on headquarters-subsidiary relationships, the control mechanisms across parent companies and subsidiaries, such as centralisation and formalisation (Otterbeck, 1981), were once a main concern of research. Under the assumption of a hierarchical structure within MNE organisations, the firm-specific assets were considered as exclusively originating from headquarters and then being spread to foreign subsidiaries (Buckley & Casson, 1976; Hennart, 1982; Rugman, 1981). On this basis, the activities of subsidiaries were largely reckoned as being dominated by headquarters. However, with the network-based organisational pattern widely observed in MNEs today (Bartlett & Ghoshal, 1998; Ghoshal & Nohria, 1997), it has been argued that the top-down pattern is insufficient to explain the diverse relationships within such companies. Furthermore, researchers have explored how the MNE networks operate, especially in relation to the resource flows. In this regard, it is considered that the foreign expansion or internationalisation of an MNE is driven by the efficiency of cross-border resource transfer (Kogut & Zander, 1993), rather than

the imperfect market (Buckley & Casson, 1976). Recently, scholars have explored the antecedents of efficiently transferring knowledge and the implications for MNE operations (e.g. Foss & Pedersen, 2002; Holm & Sharma, 2006; Hong & Nguyen, 2009).

Another related research field regarding intra-MNE knowledge transfer concerns reverse knowledge transfers, the flow of knowledge generated from the subsidiary back to headquarters. Ambos et al. (2006) argued that whether headquarters benefits from the knowledge created by a subsidiary depends on the latter's strategic role, the level of economic development of the source country, and the absorptive capacity of the headquarters. Investigating the experiences from acquired subsidiaries in Central and Eastern Europe, Yang et al. (2008) highlighted the importance of knowledge relevance to headquarters. That is, reverse knowledge transfer is like a persuading process, whereby the subsidiary raises the potential contribution of particular knowledge to headquarters and subsequently makes the transfer happen. In general, engaging in this subfield concerned with internal and external flows of resources, allows for a more comprehensive understanding of the diversity of a subsidiary's role.

Studies focusing on subsidiary roles have drawn attention to multiple agencies of an MNE's network structure, and their interdependent relations (Bartlett & Ghoshal, 1998; White & Poynter, 1984), instead of just the simple vertical link between headquarters and subsidiaries. Proponents of this research stream contest that subsidiaries hold autonomy within network-based heterarchical MNE organisations (Hedlund, 1986), and can act as nodes in MNE differentiated networks (Ghoshal & Bartlett, 1990; Nohria & Ghoshal, 1997). Under such circumstances, firm-specific advantages can be generated from foreign subsidiaries (Birkinshaw, Hood, & Jonsson, 1998; Rugman & Verbeke, 2001), where previously they could only be exploited by headquarters. Apart from the intra-organisational relationships within MNEs, some authors have highlighted the significant roles of external networks, such as the relationships with suppliers and customers. That is, they have proposed that subsidiaries are not only part of an MNE organisation, but are also embedded in the local business networks and develop specific competences from host environments (as in figure 2.2) (Andersson & Forsgren, 2000; Andersson, et al., 2002; Forsgren, et al., 2005).



Source: Adapted from Andersson et al. (2002)

Figure 2.2 The internal and external network perspectives of a subsidiary organisation

Several researchers have provided a variety of taxonomies to describe subsidiary roles within the differentiated network of MNEs (Bartlett & Ghoshal, 1998; Gupta & Govindarajan, 1991; Jarillo & Martinez, 1990; Taggart, 1998), which are generally framed by two dimensions: global integration and local responsiveness. The former refers to the linkages between subsidiaries and the whole MNE, especially headquarters, whilst the latter focuses on a subsidiary's autonomy and its level of responsiveness to the distinctive consumer preferences in the host country. A typical instance is the framework by Bartlett & Ghoshal (1998), who claimed that subsidiaries can be categorised into four types: black hole, strategic leader, implementer and contributor, which are based on the 'level of local resources and capabilities' and 'strategic importance of local environment' dimensions (Bartlett & Ghoshal, 1998, p.121). Another similar taxonomy by Jarillo and Martinez (1990) considers the degree of a subsidiary's integration with its headquarters, as compared with its level of localisation, categorising a subsidiary as: receptive, active or autonomous. Furthermore, Taggart (2001) added the quiescent subsidiary to denote the circumstance of low integration and responsiveness. Unlike the traditional dimensions of integration and responsiveness indicated above, Gupta & Govindarajan (1991) identified the subsidiary strategic contexts by the magnitude and direction of

knowledge flow. That is, they identified the variations of subsidiaries by knowledge flow between the local subsidiary and the rest of the MNE, and proposed four types: global innovator, local innovator, integrated player and implementer.

2.3.2 Subsidiary development

The researchers working under this subfield explore the changes of subsidiary roles over a span of time, which are usually presented by phases and stages. In general, there are two basic routes of subsidiary development, either decline or augmentation of the subsidiary initiatives within MNEs.

2.3.2.1 Models of subsidiary development

Some authors have put forward specific models for investigating the process of subsidiary development (Birkinshaw, 1996; Birkinshaw & Hood, 1998b; Malnight, 1995). Malnight (1995) devised a model of process, which includes three aspects: process objective, process dimension (managerial function) and development stage, to describe how the different functional aspects of a company evolve over time. Birkinshaw (1996) employed the concept of product life cycle (Vernon, 1966) and proposed the notion of a subsidiary's mandate, which refers to the fact that it has responsibilities beyond its national market. Drawing on this perspective, the mandate life cycle model has been set out in which a subsidiary evolves into various roles depending on its importance in the entire business, including 'world product mandate', when there are comprehensive responsibilities or 'product specialist', if its functions are narrow (Birkinshaw, 1996; Birkinshaw & Hood, 1997). Subsequently, Birkinshaw and Hood (1998c) provided a more comprehensive model, which is based on three key dimensions: head-office assignment, subsidiary choice and local environment determinism. Moreover, they suggested five possible routes of subsidiary evolution which is simultaneously driven by subsidiary capabilities change and subsidiary charter change (Birkinshaw & Hood, 1998c).

2.3.2.2 Empirical studies

The empirical studies on subsidiary development can be generally divided into two groups, those adopting a subsidiary perspective or that of the parent company and therefore, it is conceivable that the factors considered in each individual study are influenced by which of these stances is taken (Paterson & Brock, 2002). In this regard, the studies adopting a subsidiary perspective are prone to focus on their growing independent roles. That is, with the mandate gain of subsidiaries, their dependence on headquarters is decreasing (Birkinshaw & Hood, 1997; Delany, 1998) and/or they become increasingly embedded in the host country networks (Phene & Almeida, 2003). Regarding this, the outcomes of some research on MNEs from small economies reveal that the independence level of subsidiaries has risen as they have obtained stronger positions in local networks and closer relations with the host authorities (Ghauri, 1992). By contrast, the studies which are based on the headquarters perspective pay more attention to the influential role of the parent company. For instance, an investigation into SONY's FDI experience in the US revealed the process of resources being transferred from the parent company as well as being acquired from the host environment for a particular subsidiary (Chang & Rosenzweig, 1998). Consequently, through the gradual expansion of functions and business lines, this subsidiary evolved into a fully integrated operations unit.

Apart from approaches either from the subsidiary or parent company view, some authors have emphasised the importance of environmental factors on subsidiary development by adopting an institutional or network perspective. For instance, it has been found that increased European integration appears to encourage subsidiaries to tighten their relationships with headquarters, so as to respond the homogenisation of European markets (Jarillo & Martinez, 1990). The role of policy is another typical dimension from the institutional standpoint. In this regard, plant upgrading largely benefits from the incentives launched by host governments (Hobday & Rush, 2007; Peters, 1999) and then contributes to the economic growth of that country (Dimitratos, Liouka, Ross, & Young, 2009). In the context of the transition economies, the evolutionary process of an MNEs subsidiary has been explained as being motivated by the institutional changes in the host country (Manea & Pearce, 2006). Taking an inter-organisational perspective, Dörrenbächer and Gammelgaard (2010) investigated

the charter removal of a subsidiary. They found that not only environmental factors, but that the internal circumstances and network intensity of a subsidiary, i.e. its capability to infuse resources to other subsidiaries, also leads to weakening of its mandate (Dörrenbächer & Gammelgaard, 2010). The empirical studies mentioned above are summarised in Table 2.1.

Beyond explaining the changes in subsidiary roles, another emerging research stream is how intra-MNE relations respond to subsidiaries' closer ties with external actors in host countries. In particular, researchers have paid attention to how resources are deployed within MNEs along with the greater external embeddedness achieved by subsidiaries (Ambos, Asakawa, & Ambos, 2011; Chang & Rosenzweig, 2009; Chen, Chen, & Ku, 2012; Nell, Ambos, & Schlegelmilch, 2011). The latter is achieved by not only acquiring resources or developing capabilities in host countries, but also by resources being transferred from headquarters so as to cope effectively with the changing host environment.

However, headquarters might be reluctant to transfer the home country-based resources to foreign subsidiaries (Chang & Rosenzweig, 2009). Taking R&D activities as the research target, Ambos et al. (2011) discovered that relatively higher external embeddedness of a subsidiary may result in it being granted a lower level of autonomy. That is, the subsidiary is deprived of its autonomy as headquarters think external embeddedness will lead to it gaining excessive power. Based on samples selected from European countries, Nell et al. (2011) observed that headquarters and subsidiaries are likely to maintain relations with the same local actors when the latter are high performers, hold important resources, and operate in turbulent environments. Adopting the internal market view on competition within MNEs, Chen et al. (2012) found that headquarters are reluctant to transfer critical resources to those subsidiaries holding more location-bound resources in host countries, due to the possible threat to parent companies. Moreover, the headquarters are more likely to transfer resources to subsidiaries when the market potential of the host country is greater. Hence, extending from exploring how the subsidiary roles evolved, these studies have further investigated the impediments to intra-organisational resource flows within MNEs, which are derived from subsidiary development (Dörrenbächer & Geppert, 2011; Szulanski, 1996).

Table 2.1 Selected empirical studies on subsidiary development

Author(s)	Analysed Target	Perspective	Trajectory	Approach
Jarillo & Martinez (1990)	Multinational subsidiaries in Spain (50 samples)	Socio-political factors encourage the integration of the subsidiaries and their parent groups	More closely integrated with their parent companies	Quantitative
Ghauri (1992)	Swedish subsidiaries in Southeast Asia	The relationship with the local network in foreign market has increased over time, becoming stronger than the influence from headquarters	Three-phase	Qualitative
Birkinshaw & Hood (1997)	Canadian and Scottish subsidiaries in America (13 cases)	Two development processes are determined by the parent company, subsidiary and the host country	Two-phase (Establishing viability / Building sustainability)	Qualitative
Delany (1998)	Multinational subsidiaries in Ireland (28 cases)	Extend previous versions of mandate classification	Three-phase with eight-stage model to describe the process	Qualitative
Chang & Rosenzweig (1998)	American subsidiary of SONY	The subsidiary grows up from initial entry to multi-business lines	Two-phase (Functional migration / Business line addition)	Qualitative
Peters (1999)	European and Asian subsidiaries of electronics MNEs (8 cases)	Cluster effects of subsidiary plant development	Plant upgrading	Qualitative
Phene & Almeida (2003)	Foreign subsidiaries of US semiconductor firms (268 samples)	knowledge flow between parent company and subsidiaries	Subsidiaries are increasingly embedded in host country knowledge networks	Quantitative
Manea & Pearce (2006)	Multinational subsidiaries in Central and East European Countries	The subsidiary roles change overtime with the economic development of host countries	Two-phase (from market/efficiency-seeking to knowledge-seeking)	Quantitative
Sargent &	Mexican	The linkages	Plant upgrading	Qualitative+

Author(s)	Analysed Target	Perspective	Trajectory	Approach
Matthews (2006)	subsidiary plants of US and Asian businesses	between entrepreneurial efforts of subsidiary managers and plant upgrading		Quantitative
Hobday & Rush (2007)	Multinational subsidiaries in Thailand	Decentralised network has encouraged subsidiary capability building	Technology capabilities upgrading	Qualitative
Dimitratos et al. (2009)	Scottish subsidiary of IBM	The relationship between subsidiary development and economic growth in the host country	Three-phase (branch / developmental subsidiary / entrepreneurial subsidiary)	Qualitative
Dörrenbächer & Gammelgaard (2010)	Hungarian subsidiary of Siemens	Inter-organisational perspective (host-country factor endowments, resource position of a subsidiary and the density of network)	Charter removal of subsidiary	Qualitative

2.3.3 Discussion

In general, it is observed that there are two common routes of subsidiary development emerging from the extant research: subsidiaries gradually developing host country-bound capabilities with declining reliance on headquarters, or gradually integrating with headquarters with continuous transfer of resources from home countries to foreign subsidiaries. Given that the subsidiary's possession of resources and capabilities is central for the changes in its role (Cavanagh & Freeman, 2012; Dörrenbächer & Gammelgaard, 2006), attention needs to be paid to the MNEs resource deployment derived from subsidiary development. The concepts of internal embeddedness and external embeddedness are employed to refer to the subsidiary relationships with other units of MNEs and external actors, respectively (Andersson, Forsgren, & Holm, 2007; Forsgren, et al., 2005; Garcia-Pont, Canales, & Noboa, 2009).

Drawing on the extant studies regarding resource deployment derived from subsidiary development, some research gaps are identified as follows. Firstly, grounded in the flows of the same type of resource within MNE organisations, such as R&D and manufacturing activities, the connectedness between different managerial resources has been largely ignored. That is, the existing research provides limited knowledge in explaining those MNE practices that require cross-border interaction between different managerial functions. In particular, there has been little prior research on how subsidiaries have transformed themselves so as to operate new type of business effectively, one that is distinct from that initially arranged by their headquarters, which inevitably would have made relations between the two more complicated than previously. Hence, the investigation into subsidiary-level resource reconfiguration in this study is expected to address this research gap.

Secondly, the concepts of internal and external embeddedness have been displayed in a mutually exclusive manner among the existing literature (Yamin & Andersson, 2011) and with the increasing importance of emerging economies for the global sales of MNEs, how headquarters deal with those subsidiaries with greater external embeddedness warrants further investigation.

The third research gap associated with resource and capability in the context of subsidiary development is the role of external actors (Schmid & Schurig, 2003). Most related studies have explored the influence of institutional factors on subsidiary development by focusing on the policies implemented by governments. Thus, the roles of external networks in subsidiary development, such as: suppliers, customers and distributors, have not been comprehensively investigated. By investigating how the case companies deployed their resources complementary to those of the host market-seeking subsidiary undergoing transformation, which are grounded in the newly-built networks with distributors, this study addresses the research gaps highlighted above.

2.4 Literature review part III: Dynamic capabilities view

2.4.1 Overview: Dynamic capabilities view in strategic management

The theoretical evolution of strategic management research has been described as resembling the swings of a pendulum (Hoskisson, Wan, Yiu, & Hitt, 1999), in which there has been an iterative shift in the focus of the theoretical core between the inside and the outside of business. Unlike the structural perspective of industrial organisation economics, proponents of RBT have emphasised how a firm can generate competitive advantage through its internal firm-specific resources and capabilities (Amit & Schoemaker, 1993; Barney, 1991; Dierickx & Cool, 1989; Mahoney & Pandian, 1992; Peteraf, 1993; Wernerfelt, 1984). The origins of RBT can be traced back to the renowned book written by Edith Penrose (1959), *The theory of the growth of the firm*, which provided the fundamental concepts. She argued that the distinctiveness of an individual firm can be defined by how a firm provides 'productive services' for its resources (Penrose, 1959). As an inside-out perspective, proponents of RBT aim to clarify what are the internal sources of a firm's value creation, especially those which surpass their competitors. Moreover, building on the assumptions of heterogeneity and immobility of the resources possessed by a firm, Barney (1991) developed VRIO criteria for evaluating the sustainability of competitive advantage. However, amid volatile environments this needs to be especially robust if it is to secure long term firm growth. Moreover, the static nature of RBT has been criticised (Priem & Butler, 2001) as well as the missing link between the possession of resources and their exploitation under this perspective (Newbert, 2007). The insufficiency of RBT in explaining changing environments is the origin of dynamic capability views (DCV).

Approaches from the DCV have synthesised the theoretical constructs from the behavioural theory of the firm, transaction cost theory and evolutionary theory to address the weakness of the RBT (Augier & Teece, 2009). Under this perspective, the core concept is that a firm possesses the capability to access new resources and renew existing ones, which it is subsequently able to fit to the changing environment. However, the utility of this emerging offshoot of RBT is still limited due to the lack of shared common understanding and an effective operational framework for managers (Ambrosini & Bowman, 2009). Even though it is still a developing subfield

of strategic management, its underlying assumptions provide an inspirational approach to uncover the origins of competitive advantage in volatile environments.

2.4.2 Dynamic capabilities view

2.4.2.1 From capabilities to dynamic capabilities

Resource and capability have been two terms widely mentioned in business research, and often applied interchangeably by authors. In this study, resource is defined as stocks of available factors that owned or controlled by the firm, whilst capability is taken as a firm's capacity to deploy its resources for a desired end result (Amit & Schoemaker, 1993, p.35). With the dynamics of internal and external circumstances, an organisation has to not only adjust, develop, or divest existing capabilities, but also create new ones. To unveil the process of capability evolution, Helfat and Peteraf (2003) put forward the capability lifecycle (CLC), including the stages of founding, development, maturity and branching. In addition, the organisational initiatives, i.e. retirement, retrenchment, replication, recombination, redeployment and renewal of capability have been deemed to refer to the various paths at the branching stage (Helfat & Peteraf, 2003).

Apart from the CLC model paying attention to the evolution of capability over time, capabilities have been categorised into different levels from a hierarchical perspective. Even though differences exist among the terms used by authors (Ambrosini, et al., 2009; Helfat, et al., 2007; Newey & Zahra, 2009; Winter, 2003; Zahra, et al., 2006), operational capability and dynamic capability are the two basic types of organisational capabilities that can be discerned in the literature. In general, operational capability (or substantive capabilities as coined by Zahra et al. (2006) or zero-level capabilities by Winter (2003), refers to an organisation performing a coordinated set of tasks for achieving a particular end (e.g. production development), whereas dynamic capability refers to the reconfiguration of operational capability and allows it to modify its resource base (e.g. product portfolio management). That is, dynamic capability is reckoned as a higher level of organisational capability the function of which is to reconfigure operational capabilities and resources.

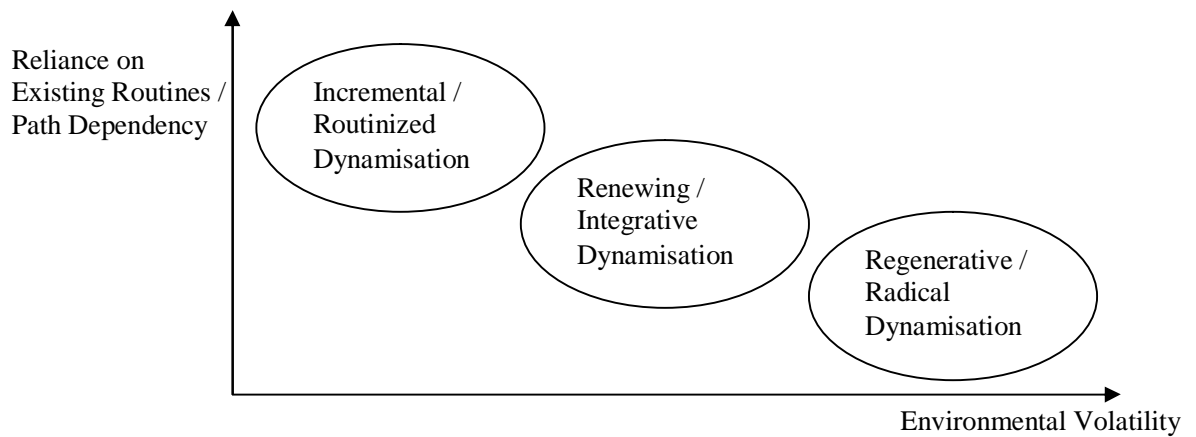
2.4.2.2 Definitions of dynamic capabilities

A number of authors have developed various definitions of dynamic capabilities (see table 2.1). Teece et al. (1997:516) provided an original definition of dynamic capabilities: "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environment". Moreover, they maintained that the managerial process, asset position and historical path are the three main elements of dynamic capabilities. In other words, changes in competitive advantage are not only generated by managerial processes, but also constrained by current endowment factors and the previous path of a firm's development. To address the lack of organisational mechanisms in the original definition, Teece (2007) added three elements: sensing opportunities, seizing opportunities and maintaining the competitiveness, as a firm's micro-foundations for exerting dynamic capabilities. Eisenhardt and Martin (2000) defined dynamic capabilities as organisational processes that: integrate, reconfigure, gain and release resources, whilst another definition from Helfat et al. (2007:1) states that they are "the capacity of an organization to purposefully create, extend, or modify its resource base". These authors further proposed the concept of "asset orchestration" to depict the core mechanism of dynamic capabilities, which refers to the search for, selection, configuration and deployment of the assets within the resource base of an organisation (Helfat, et al., 2007).

The role of routine and the reliance on historical path are the main recurring points amongst debates regarding these similar definitions. Most authors agree that dynamic capabilities are organisational routines, which take time to evolve and result in a reconfiguration of resources. Furthermore, organisational learning is the key mechanism that features during the evolution of these routines. More specifically, Zollo and Winter (2002) maintained that dynamic capabilities are generated from the co-evolution of the learning mechanism, which consists of: experience accumulation, knowledge articulation and knowledge codification. As a result, organisational routines are renewed by dynamic capabilities and come to align with the newly emerging circumstances (Zollo & Winter, 2002). However, the acquisition of dynamic capabilities is considered to be a long-term internal learning process and the inertia of routines might hamper their development, resulting in the organisations being unable

to cope with the volatile market. Regarding this, integrating the aspect of environmental volatility with the DCV, Eisenhardt and Martin (2000) argued that dynamic capabilities are detailed, analytic, stable and predictable in a moderate dynamic market, but in contrast, a firm can develop simple, highly experiential, fragile and unpredictable dynamic capabilities in volatile environments.

In order to add clarity to the literature on exerting dynamic capabilities in different environmental conditions, authors have categorised dynamic capabilities according to dynamisation (Ambrosini, et al., 2009; Schreyögg & Kliesch-Eberl, 2007). In this regard, Schreyögg and Kliesch-Eberl (2007) identified three types of dynamisation: radical, routinised and integrative, a combination of the two foremost. Radical dynamisation refers to the situation when firms develop entirely new capabilities, while routinised dynamisation means the historical resource bases of firms are mostly retained, but renewed for coping with the changing environment. Similarly, Ambrosini et al. (2009) proposed three levels of dynamic capabilities: incremental, renewing and regenerative level capabilities aligning with the environmental circumstances. In a stable environmental situation, firms tend to adjust their resource bases by adopting incremental changes, whereas regenerative dynamic capabilities are required when encountering radical change (Ambrosini, et al., 2009). The different types of dynamic capabilities according to different levels of environmental volatility and degree of reliance on existing routines are illustrated in figure 2.3.



Source: Schreyögg and Kliesch-Eberl (2007) and Ambrosini et al. (2009)

Figure 2.3 The classification of dynamic capabilities by environmental volatility and reliance on existing routines or path dependency

The concept of dynamic capabilities is still developing and thus there are a variety of definitions and classifications (as shown in table 2.2). Some of their commonalities are summarised here. Firstly, dynamic capabilities enable a firm to reconfigure its resource base by means of a series of organisational initiatives so as to address the changes in internal and external circumstances. Secondly, managers play a critical role in developing or exerting dynamic capabilities, especially top-management teams, as they are the key decision makers who perceive the market changes. Thirdly, it is necessary that the external roles are considered whilst firms are developing dynamic capabilities. This is a fundamental element of the overall concept of dynamic capabilities, because a firm cannot merely rely on existing firm-specific resources to tackle all the challenges it faces. However, environmental dynamism is not an essential requirement for dynamic capabilities building, for firms are capable of developing these in comparatively stable situations. Fourthly, dynamic capabilities cannot be purchased from the markets and take time to develop.

Table 2.2 Selected definitions and interpretations of dynamic capabilities

Author(s)	Definition / Interpretation
Teece et al. (1997)	The firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments
Eisenhardt and Martin (2000)	The firm's processes that use resources- specifically the processes to integrate, reconfigure, gain and release resources- to match and even create market change. Dynamic capabilities thus are the organisational and strategic routines by which firms achieve new resource configurations as markets: emerge, collide, split, evolve, and die
Zollo and Winter (2002)	A learned and stable pattern of collective activity through which the organisation systematically generates and modifies its operating routines in pursuit of improved effectiveness
Winter (2003)	The capabilities operate to extend, modify or create ordinary capabilities
Zahra et al. (2006)	The abilities to reconfigure a firm's resources and routines in the manner envisioned and deemed appropriate by its principal decision-maker(s)
Helfat et al. (2007)	The capacity of an organisation to purposefully create, extend, or modify its resource base
Schreyögg and Kliesch-Eberl (2007)	Label dynamic capabilities as three types of dynamisation: radical, routinised and integrative dynamic capabilities
Teece (2007)	(1) to sense and shape opportunities and threats, (2) to seize opportunities, and (3) to maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise's intangible and tangible assets
Ambrosini et al. (2009)	Extend the concept of dynamic capabilities by three levels: incremental, renewing and regenerative dynamic capabilities
Barreto (2010)	The firm's potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base

With regards to the emerging studies adopting the DCV, in their latest book, Barney and Clark consider that it is merely "change the label of the independent variable" and "the central assertions of resource-based theory remain unchanged" (Barney and Clark, 2007, p. 249). They also argued that the extant studies on DCV have largely focused on answering why one firm outperforms others, but are weak in predicting the future development of a firm's resource base. Consequently, they further proposed a "dynamic resource-based theory", which is expected to predict the future development of a firm's resource base. From this it can be concluded that

although the limited explanatory power of RBT has been acknowledged by academia, the DCV has not sufficiently addressed the research gap on the resource reconfiguration.

2.4.2.3 Empirical studies

In this subsection, the empirical studies that have adopted the DCV are reviewed in order to identify and discuss the latest developments. Table 2.3 briefly outlines these studies, which were published in leading management journals between 2005 and 2010, including the: *Strategic Management Journal*, *Organization Science*, *Human Relations*, *Journal of Management Studies*, *Journal of International Business Studies*, *Industrial and Corporate Change* and the *British Journal of Management*⁴.

In general, most of recent studies on dynamic capabilities have focused on the impact of external change on organisations and their responses (Athreye, Kale, & Ramani, 2009; Dixon, Meyer, & Day, 2007), and/or the interactions between resource bases, operational capabilities and dynamic capabilities (McKelvie & Davidsson, 2009; Newey & Zahra, 2009). Moreover, some of these authors have extended their concerns to the quantitative measurements of dynamic capabilities (Døving & Gooderham, 2008; Fang & Zou, 2009; Macher & Mowery, 2009), the linkages with social responsibility and government policy (Malik & Kotabe, 2009; Marcus & Anderson, 2006), and their applicability to the public sector (Pablo, Reay, Dewald, & Casebeer, 2007). In regard to the contexts underlying the recent empirical studies, science-based firms, such as pharmaceutical and semiconductor companies, have been the most common research targets.

⁴ No article specifically containing the term 'dynamic capabilities' in the title was published in the *Academy of Management Journal* or the *Academy of Management Review* and *Organisation Studies* between 2005 and 2010.

Table 2.3 Selected empirical studies on dynamic capabilities: 2005-2010

Author(s)	Focus of the Study	Context	Approach
Lazonick and Prencipe (2005)	The roles of strategy and finance in sustaining the innovation process	Single case (Rolls-Royce)	Qualitative
Marcus and Anderson (2006)	Whether a general dynamic capability affects the business and social competencies	US retail food industry	Qualitative (pilot study) + Quantitative
Dixon et al. (2007)	Investigate the process of organisational transformation under political upheaval	4 Russian oil firms	Qualitative
Pablo et al. (2007)	How managers in the public sector use dynamic capabilities to improve performance	One health care organisation	Qualitative
Rothaermel and Hess (2007)	Innovations come from heterogeneity in and across the individual, firm and network levels	Global pharmaceutical industry	Quantitative
Døving and Gooderham (2008)	Whether dynamic capabilities affect the scope of related diversification in firms	254 Norwegian accountancy firms	Quantitative
Athreye et al. (2009)	How radical regulatory changes impact upon dynamic capability development	4 Indian pharmaceutical firms	Qualitative
Bruni and Verona (2009)	How dynamic marketing capabilities affect the new product development process of science-based firms	6 global firms in pharmaceutical industry	Qualitative
Fang and Zou (2009)	Test the effect of marketing dynamic capabilities on the performance of international joint ventures	114 manufacturing international joint ventures in China	Quantitative
Macher and Mowery (2009)	Measure dynamic capabilities by learning mechanisms inside the manufacturing processes	93 manufacturing processes in 32 semiconductor firms	Quantitative
Malik and Kotabe (2009)	Determine the development mechanisms of	93 manufacturing firms in India and Pakistan	Quantitative

Author(s)	Focus of the Study	Context	Approach
	dynamic capabilities and the role of policies		
McKelvie and Davidsson (2009)	Test the effect of different resource base on dynamic capabilities	108 newly established firms in Sweden	Quantitative
Narayanan et al. (2009)	Investigate the origins and process of dynamic capability building (fast cycle drug development and chemical biology R&D platform)	One pharmaceutical firm in the USA	Qualitative
Newey and Zahra (2009)	How firms build adaptive capacity by interactions between operational (absorptive capacity) and dynamic capabilities (product portfolio planning)	Two pharmaceutical firms	Qualitative

The literature outlined above reveals that the DCV is a field of ongoing development, which requires the building up of a well-constructed theoretical framework to facilitate future studies (Easterby-Smith, Lyles, & Peteraf, 2009). Here a diagram is used to present the empirical studies adopting DCV, which encompasses four elements: trigger, process, outcome and type of dynamic capabilities (figure 2.4).

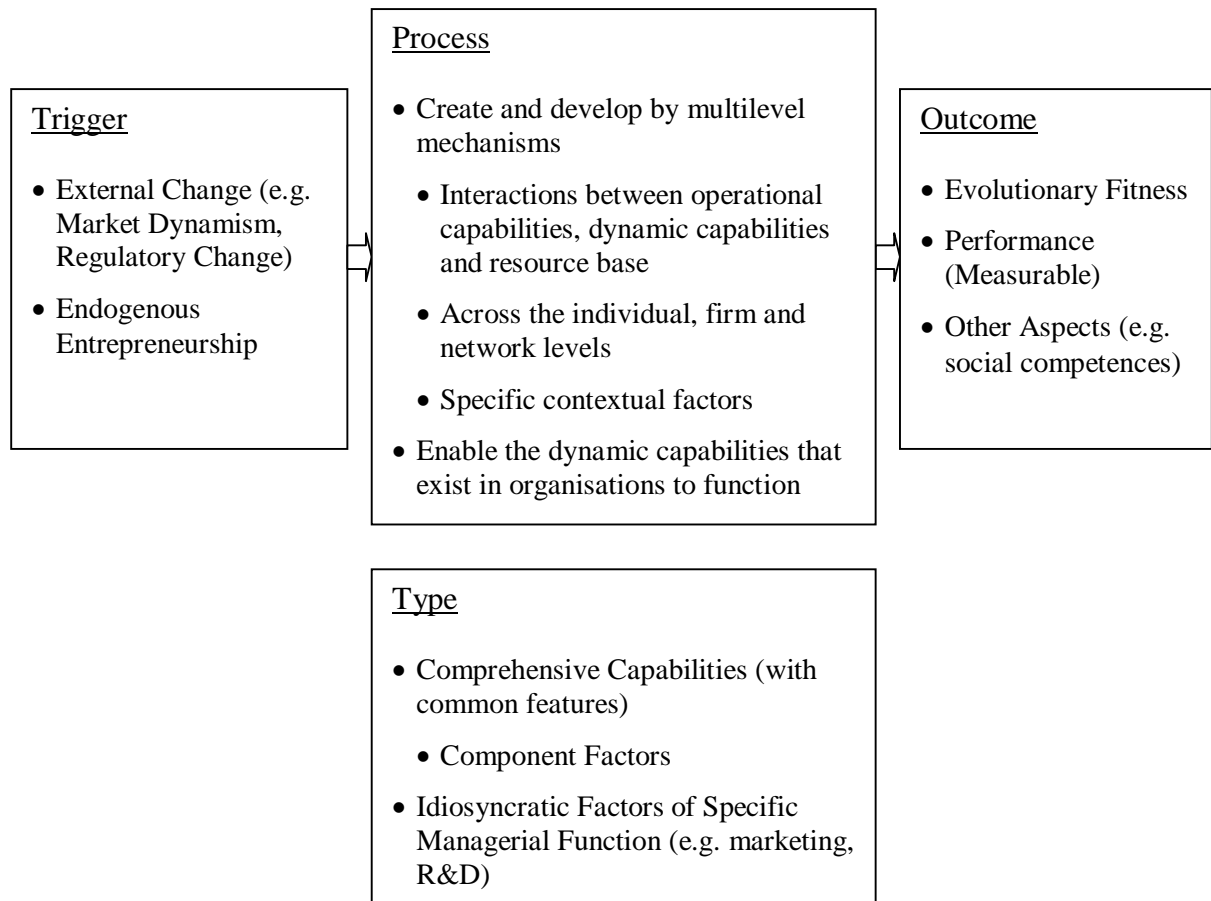


Figure 2.4 A conceptualisation framework of dynamic capabilities summarised from recent empirical studies

The first area of the debate relates to the trigger for dynamic capabilities to be developed. According to the definition given by Teece et al. (1997), the objective of dynamic capabilities is to “address the rapidly changing environments”. That is, with this perspective scholars assume that market dynamism is the prerequisite of dynamic capabilities. This has been verified by recent empirical studies, which have revealed that factors such as political upheaval, radical regulatory change and environmental volatility can lead to the development of dynamic capabilities (Athreye, et al., 2009; Dixon, et al., 2007; Fang & Zou, 2009; Wu, 2010). However, some authors have applied the concept of dynamic capabilities to comparatively stable environments (Schreyögg & Kliesch-Eberl, 2007), and have provided evidence that endogenously led changes are also viable catalysts for their being created (Newey & Zahra, 2009). More specifically, these authors found that, managerial intentionality acts as the

trigger for the whole process, rather than external changes. In sum, in recent years, as compared with the past, it has become widely acknowledged that volatility of the environment is not an essential requirement for the inception of dynamic capabilities (Ambrosini & Bowman, 2009).

Turning to the second element in figure 2.4, most authors have explained the process of dynamic capabilities development through the interactions between organisational capabilities, dynamic capabilities and resource bases. In this regard, Dixon et al. (2007) combined organisational learning and the DCV to investigate the organisational transformation of Russian oil firms under political upheaval from a centrally-planned to a market economy and discovered that dynamic capabilities played different roles across the stages of institutional transformation. Moreover, they elicited that exploitation and exploration learning are key organisational initiatives that have been adopted to achieve short-term survival and long-term growth, respectively. McKelvie and Davidsson (2009) investigated the underlying resource components of specific dynamic capabilities based on a survey of new Swedish firms. They verified the influence of resource varied over time and thus highlighted the importance of taking a longitudinal perspective in dynamic capabilities studies. From another angle, Newey and Zahra (2009) proposed that the interactions between operational and dynamic capabilities foster the evolution of the firm. Taking case studies of pharmaceutical firms, they explained that the adaptive capability, which comes from interactions between product development (operational capability) and portfolio planning (dynamic capability), results in competitive advantages.

Moreover, some authors have provided different conceptual frameworks to explain the process of dynamic capabilities development. Rothaermel and Hess (2007) constructed a comprehensive model across the individual, firm and network levels, which they tested to evaluate the effect on innovation performance and found that all three levels contributed to the acquisition of dynamic capabilities. In other words, their research advanced the DCV literature by addressing the integrative theoretical perspective. Through a survey of Indian and Pakistani firms, Malik and Kotabe (2009) investigated the development mechanisms of dynamic capabilities in the context of emerging market manufacturing firms (EMFs). They extended the DCV to the role of government policies in business performance and found that organisational learning,

reverse engineering and manufacturing flexibility, were key mechanisms of EMF growth. In sum, the recent empirical studies discussed above have mainly postulated that dynamic capabilities are created or developed through organisational processes. In contrast to the perspective of organisational processes, Pablo et al. (2007) suggested that dynamic capabilities are latent in organisations. That is, all managers need to do is to ignite the dynamic capabilities that exist within their organisations, through a process of identifying them, then enabling them through the management function (Pablo, et al., 2007).

The third area of the debate is concerned with the evolutionary outcome of dynamic capabilities and how to gauge their effectiveness. Generally, the outcome refers to the reconfigured resource base, which is aligned with the circumstances that the organisation operates, or its evolutionary fitness (Helfat, et al., 2007). Some authors have extended the evolutionary fitness to performance, and then made the dynamic capabilities measurable (Døving & Gooderham, 2008; Fang & Zou, 2009; Macher & Mowery, 2009; Malik & Kotabe, 2009; Rothaermel & Hess, 2007). Consequently, these authors identified explicit factors involved in the process, which have contributed new insights into understanding the nature and measurement of dynamic capabilities. However, given the lack of consensus on the components in this field, more longitudinal research has been called for (Easterby-Smith, et al., 2009). Two such research efforts are those of Narayanan et al. (2009) and Newey and Zahra (2009), which both involved using in-depth longitudinal case studies of pharmaceutical firm(s).

The bottom part of figure 2.4 represents the final area of debate over the DCV- whether dynamic capabilities hold common features or component factors. Even though some dynamic capabilities may well be idiosyncratic to individual firms, some authors have contended that commonalities of dynamic capabilities exist across different organisations. In other words, if these commonalities were identified, then this would facilitate transferability of the DCV. In this regard, Teece (2007) summarised that: sensing opportunity, seizing opportunities and managing threats through configuring of assets inside and outside of the firms, are the three parts of dynamic capabilities. Taking a different perspective, Bowman and Ambrosini (2003) maintained dynamic capabilities include four main processes: reconfiguration,

leveraging, learning and integration. Whereas Luo (2000) developed a framework explaining international expansion by the DCV, which includes three essential ingredients: capability possession, capability deployment and capability upgrading. In a similar vein, other scholars proposed an integrated framework to represent capabilities containing component factors, such as: adaptive, absorptive and innovative capabilities (Wang & Ahmed, 2007). Different from the foregoing studies tracing the commonalties of dynamic capabilities, more recent research has focused on specific managerial functions, such as marketing (Bruni & Verona, 2009; Fang & Zou, 2009). Bruni and Verona (2009) revealed that marketing dynamic capabilities provided knowledge to other departments during the initial and final stages of new drug development. Moreover, Fang and Zou (2009) elicited that marketing dynamic capabilities has a positive effect on international joint ventures.

From the literature discussed above, it is reaffirmed that the DCV is still without a coherent foundation for establishing robust theory (Arend & Bromiley, 2009; Helfat & Peteraf, 2009). Most of previous studies adopting this stance have tended to be fragmented, choosing to concentrate on only one of the areas of the debate, as illustrated in figure 2.4. Consequently, there is a pressing need for a holistic framework that can integrate the four identified elements regarding the nature of dynamic capabilities. Meanwhile, some researchers have suggested adopting complementary theories in order to strengthen the explanatory power of this developing stream of RBV (Ambrosini & Bowman, 2009). In line with this advocacy, two complementary theoretical perspectives are selected for this thesis in order to explore how resource reconfiguration has occurred in the context of subsidiary transformation. That is, focusing on the internal circumstances of subsidiary organisations, subsection 2.4.3 explores the concepts of capability leverage and capability building, which refer to the historical resources and newly-developed resources, respectively. Next, identifying network relations as the key conduits outside organisational boundaries for accessing resources, subsection 2.4.4 briefly reviews the network perspective in the context of international business studies.

2.4.3 Internal perspective: Capability leverage (historical resources) and capability building (newly-developed resources)

Following the typology proposed by Tallman (2001, 2009) on global strategic management, the initiatives employed by organisations over their resource bases can be categorised as two major types: capability (or resource) leverage and capability (or resource) building. The former refers to the historical resources which organisations possess, or the initial endowments, whilst the latter denotes those that are newly built up. In a similar vein, the organisational learning concepts of exploitation and exploration proposed by March (1991) correspond with to these two types of initiative, respectively, in that the former means extensively utilising the value of existing resources, whilst the latter denotes searching for the resources for new scenarios which organisations face.

With regards to managing the relations between historical and newly-built resources, scholars have held varying standpoints. Adopting the concept of *strategic factor markets*, Barney (1986) argued that firms generate above-normal returns by externally acquiring the critical resources. However, given the viewpoint of acquiring capabilities through market mechanisms (Barney, 1986), the importance of initial endowments of firms has been understated by him (Maritan & Peteraf, 2011). By contrast, grounded in the assumption of incomplete factor markets, other scholars have maintained that firms accumulate critical resources through organisational processes, rather than arms-length transactions in the market (e.g. Dierickx & Cool, 1989). The proponents of the DCV essentially support the latter stance, identifying dynamic capabilities as a series of organisational processes for resource renewal (Ambrosini, et al., 2009; Teece, et al., 1997).

In the realm of international business, MNEs face challenges over the appropriateness of resource bases when they invest in a complex foreign country environment and/or encounter a volatile one (Luo, 2002; Uhlenbruck, Meyer, & Hitt, 2003). Based on a study of MNEs subsidiaries investing in China, Luo (2002) identified the strategic features of MNEs targeting both the export and local markets. His research revealed that MNEs deploy more capability leverage and capability building when their subsidiaries are exploring the local market than when they are

pursuing export-oriented growth. That is, the export-oriented subsidiaries are more likely to exploit their resource bases given that they do not wish to access the host market. Focusing on post-privatization strategies, Uhlenbruck et al. (2003) proposed a model to investigate how state-owned companies managed their resource bases to cope with volatility caused by radical reform of the economic system, from socialist to market economies. They found that the historical resources of state-owned companies were often divested, upgraded, and integrated with newly-acquired ones.

Although the abovementioned literature provides a conceptual foundation for the research on the resource reconfiguration of MNEs, the interaction between historical and newly-developed resources has been less explored. Based on the context of the transition economies, previous research has acknowledged the historical resources as barriers to organisational growth that require gradual transformation (Dixon, Meyer, & Day, 2010; Uhlenbruck, et al., 2003). However, how historical resources beneficially function during resource reconfiguration has not been adequately investigated. Moreover, given that this reconfiguration has been traditionally dominated by headquarters, how subsidiaries align their resource portfolios with a changing environment merits more research endeavours. Further, interwoven through multiple embeddedness (Meyer, et al., 2011), subsidiaries have to cope with the more intricate intra- and inter-organisational relations than parent companies in home countries. In this regard, by shedding light on the resource complementarities (Maritan & Peteraf, 2011), this study not only investigates the building of new capabilities, but also explores the interaction between historical and newly-built resources, together with the resource deployment between headquarters and subsidiaries.

2.4.4 External perspective: Relational view

Although the proponents of the DCV seek to address the inward-looking weakness of resource-based theory, an effective framework regarding organisational linkages with external actors has not been completely developed. Here, the relational view (Dyer & Singh, 1998) and the perspective of strategic networks (Gulati, et al., 2000) are adopted to be the complementary theoretical perspective to DCV. These two theoretical streams hold similar concerns regarding how the relational assets generate

the competitive advantage of firms. That is, through leveraging the relations with network members, the focal companies have been able to access the resources held by external actors (Gulati, 2007; Gulati, et al., 2000; McEvily & Marcus, 2005), and consequently have overcome the limitations of their existing resource bases. In general, in the context of this study the relational view will be employed to explain the inter-firm relations between subsidiaries and external actors in the host country, particularly the distributors.

In the field of international business, MNEs have been seen as situated in heterarchical networks (Ghoshal & Nohria, 1997; Hedlund, 1986), which are generally divided into intra- and inter-organisational relations. The former focuses on the ties within MNEs, while the emphasis of the latter is the links between subsidiaries and external actors, in particular business partners and institutional agencies in the host countries. The concepts of internal and external embeddedness similarly refer to the two types of organisational relations of MNEs (Andersson, Forsgren, & Holm, 2001; Forsgren, et al., 2005). When applying the relational view to the internationalisation process of MNEs, relational-assets are considered as one type of ownership assets, which can be augmented with increasing access to the host country-based resources (Dunning & Narula, 2004). Therefore, internationalisation is perceived as the outcome of firms with strengthened positions among cross-border networks. In contrast, if MNEs are unable to leverage network relations to capture critical resources, they will be marginalised on the periphery and face the liability of outsidership (Johanson & Vahlne, 2009).

If different types of MNEs are considered further, holding network relations in host countries is critical for those from emerging economies (EMNEs) in acquiring the required resources. Unlike their counterparts from developed economies, EMNEs always face resource deficiency, such as brand entities (Dunning, et al., 1998), which makes them much more eager to access the resources from host environments. Empirical studies on the foreign direct investment made by Taiwanese MNEs (Chen & Chen, 1998; Chen, Chen, & Ku, 2004) have highlighted the network relations as critical resources for MNEs to achieve resource augmentation. Moreover, for MNEs investing in the emerging economies, they also need to leverage the local network

relations to obtain market information (Peng & Heath, 1996) and then overcome the institutional voids (Khanna, et al., 2005).

However, although the network relations or embeddedness generates reciprocal benefits, it also brings costs to companies and network members, such as unintended knowledge spillovers to competitors (Narula & Santangelo, 2012). Moreover, the firms might be unable to appropriate the relation rent due to the high cost caused by opportunistic behaviours. Given that the traditional network research has mainly paid attention to the relations between network structure and performance, the internal circumstances of firms have not been completely explored. That is, the essence of relational assets has yet to be investigated according to how firms preserve, exploit, and manage the network (Dhanarag & Parkhe, 2006; Zaheer & Bell, 2005).

In the context of MNEs, given the feature of dual embeddedness, subsidiaries have been acknowledged as performing a critical role in acquiring resources from host environments and diffusing them to other organisational units within the company (Birkinshaw, et al., 1998; Birkinshaw, et al., 2005; Rugman & Verbeke, 2001). Nevertheless, the MNE studies adopting a network perspective have attracted criticism for their ignorance of headquarters' roles in altering the network governance (Barner-Rasmussen, Piekkari, Kennel, & Andersson, 2010), in particular for those MNEs with a vertically specialised structure (Yamin & Ghauri, 2010). Consistent with the holistic perceptive advocated by Yamin and Andersson (2011), this study investigates how subsidiaries govern their network relations from both the internal and external embeddedness perspectives (Nell, et al., 2011).

2.4.4.1 The essence of interactions among the inter-firm relations

Beyond the attention paid to the inter-firm relations outside organisational boundaries, investigation into the essence of interactions between partners is merited. Uzzi (1997) indicated that the interaction among 'embedded relationships' (Uzzi, 1997, p.36) encompasses three components: trust, fine-grained information transfer, and joint problem-solving arrangements. However, some scholars further suggested that most cooperation between network members is grounded in the 'encapsulated interest in trust' (Hardin, 2002), which means trust is generated as network members incorporate the interests of trusted members. Hence, cooperation is moved forward by the

incentives which make the relations safe and productive for members involved, rather than merely by trust based on morality (Cook, Hardin, & Levi, 2005). Moreover, network members not only benefit from the cooperation, but also are able to effectively deal with opportunistic behaviours within the inter-firm relations. Luo (2006) pointed to the internal and external uncertainties that MNEs face as they manage the inter-firm networks in the emerging economies. External uncertainties refer to market volatility, legal unprotectability, information unverifiability and regulatory variability, while goal disparity, resource misfit, cultural dissimilarity and bargaining asymmetry, are internal circumstances of inter-firm relations, which result in the network members' opportunism (Luo, 2006).

In the context of this study, MNEs have to rely heavily on distributors to access the host market in China, due to the immature distribution sector. However, given that nearly all global brand marketers are competing for limited access to the Chinese market, distributors can easily switch who they are working with and hence, EMNE subsidiaries, given their weaker resources than Western MNEs are likely to face acute bargaining asymmetry within their inter-firm relations with distributors when entering the host market. The weak brand awareness and contact with customers further exacerbate this asymmetry, which might bring higher management costs for case subsidiaries than the benefits that can be appropriated from inter-firm relations. Therefore, given the internal and external uncertainties, this study seeks to capture the essence of interactions within the inter-firm relations between case subsidiaries and distributors.

2.4.4.2 Governance mechanisms within inter-firm relations

The governance mechanisms within inter-firm relations can be generally categorised as pairs of concepts, e.g. economic vs. social mechanisms (Dong, Tse, & Cavusgil, 2008; Luo, 2006), control vs. trust (Tsui-Auch & Möllering, 2010), and formal contracts vs. relational governance (Poppo & Zenger, 2002). Given the contrastive nature beyond these pairs of governance mechanisms, they can be divided into two groups: arms-length transactions and personalised ties. One debate regarding the interaction between the two types of mechanisms is whether they substitute (Gulati, 1995; Uzzi, 1997) or complement (Poppo & Zenger, 2002) each other. The former

stream of literature argues that formal contracts (or control-oriented initiatives) undermine the trust that is the foundation for personal relationships, while the latter contends that the two types of mechanisms are complementary as a result of greater exchange performance among network relations.

In the context of managing inter-firm relations in emerging economies featured as "institutional voids" (Khanna, et al., 2005), relying on relational ties is the conventional suggestion provided by the literature (Boisot & Child, 1996). However, recent empirical studies have found that trust and control are simultaneously employed by foreign investors as they deal with the perceived vulnerability in China (Tsui-Auch & Möllering, 2010). Similarly, Zhou et al. (2008) pointed to the coexistence of impersonal governance within foreign companies' inter-firm relations in China, with the personal ties, the latter still remaining dominant. Therefore, companies are unlikely to benefit constantly from inter-firm relations by merely utilising relational ties, even in an emerging economy with high volatility. However, although the need for achieving balance between the two types of governance mechanisms has been acknowledged it has yet to be completely investigated. Evaluation in terms of costs and benefits of governance mechanisms is also merited (Zhou, Poppo, & Yang, 2008). The experiences of the case subsidiaries of this study are expected to advance understanding of mechanisms adopted to govern sufficiently inter-firm relations of a vulnerable nature, i.e. tapping into the host market of an emerging economy, such as China, through building up relations with distributors.

2.4.5 Discussion

As discussed above, there is little consensus on the definition of the DCV and how it should be researched. Hence, the studies applying this emerging perspective are focused on varying notions of what capabilities are (Barreto, 2010; Wang & Ahmed, 2007). This subsection is on the DCV-related literature together with the two complementary perspectives: interactions between capability leverage (historical resources) and capability building (newly-developed resources) and the relational view.

First of all, this researcher proposes that the starting point for the development of dynamic capabilities is the limitation of the existing resource base for coping

effectively with the challenges driven by endogenous entrepreneurship or exogenous change. Turning to the debate on whether environmental volatility is a necessary requirement for dynamic capabilities, it is posited that the gap between the existing resource base and challenges that firms encounter is more critical than the velocity of environmental change. As a result, the trigger for dynamic capabilities is broadened out from external aspects (Teece, et al., 1997) to include internal circumstances (Newey & Zahra, 2009). Secondly, the dynamic capabilities are identified as a series of organisational initiatives in this study. Internally, the aim is to explore how the historical resources and newly-built resources interact so as to achieve evolutionary fitness (Helfat, et al., 2007). Externally, light will be shed on the inter-firm relations between focal companies and external actors, that is, the process of accessing the required resources during the subsidiary transformation. In this research, the exploration of the resource circumstances and inter-firm relations echoes the call to investigate the individual, firm and network levels, together, when analysing the sources of dynamic capabilities (Rothaermel & Hess, 2007). Thirdly, in this work a reconfigured resource base that achieves evolutionary fitness is the expected output from exerting dynamic capabilities (Helfat, et al., 2007), for this resource base enables the focal organisation to secure competitive advantages over their rivals. However, before identifying the correct variables to evaluate the effectiveness of dynamic capabilities in the context of subsidiary transformation, it should be noted that quantitatively measuring the linkage between dynamic capabilities and the performance of organisations is not a purpose of this study.

In sum, this study comes under the perspective of seeing dynamic capability as a kind of higher order and comprehensive capability than operational capability, for instance, which reconfigures the resource base of an organisation so as to be able to deal effectively with the various scenarios it encounters. Through exploring a specific context regarding recourse reconfiguration (Bruni & Verona, 2009), it is expected that this research will advance understanding about how dynamic capabilities operate in practice.

2.5 Preliminary conceptualisation and conclusion

Focusing on the context of EMNEs investing in other emerging economies, this study aims to investigate how subsidiaries reconfigure their resource bases to cope effectively with the transformation from export-orientation to a host market-seeking one. Given the goals of this study, new light is shed on the internal circumstances of EMNEs and on the impact of the less-investigated external actors, in this case the distributors. Theoretically, two fields of literature: subsidiary development and the DCV have been reviewed so as to generate a preliminary conceptual framework that identifies the relevant agencies and their interactions.

The model of subsidiary development framed by Birkinshaw and Hood (1998c) provides a basic structure of analysis for this study, which encompasses three elements: subsidiary organisations, headquarters, and the host environment. Moreover, employment of the network perspective of MNEs (Andersson & Forsgren, 2000; Andersson, et al., 2002) highlights the importance of their internal and external embeddedness. That is, by combining these two theoretical frameworks, it is possible to investigate subsidiary behaviour in terms of their relationships with actors both inside and outside MNE organisations. The resource reconfiguration process is the focus of the analysis within subsidiary organisations. In addition, the concepts of capability leverage and capability building are identified as key constructs of the resource reconfiguration process, which involves considering both the historical and newly-developed resources of the case subsidiaries, respectively. Outside the organisational boundaries, the subsidiaries' inter-firm relations with external actors are another main part of the investigation. Beyond the interactions with host environments, there is also exploration of the changes in the headquarters-subsidiary relationships during the latter's transformation process and two types of resource flows are considered in the analysis. One is the resources deployed from headquarters to the subsidiaries, which are complementary to subsidiary transformation, whilst in the reverse direction resources and capabilities generated by the subsidiaries could be transferred to headquarters and result in strategic implications at the whole MNE-level. Based on the literature reviews and discussion presented above, a preliminary conceptual framework is illustrated in figure 2.5.

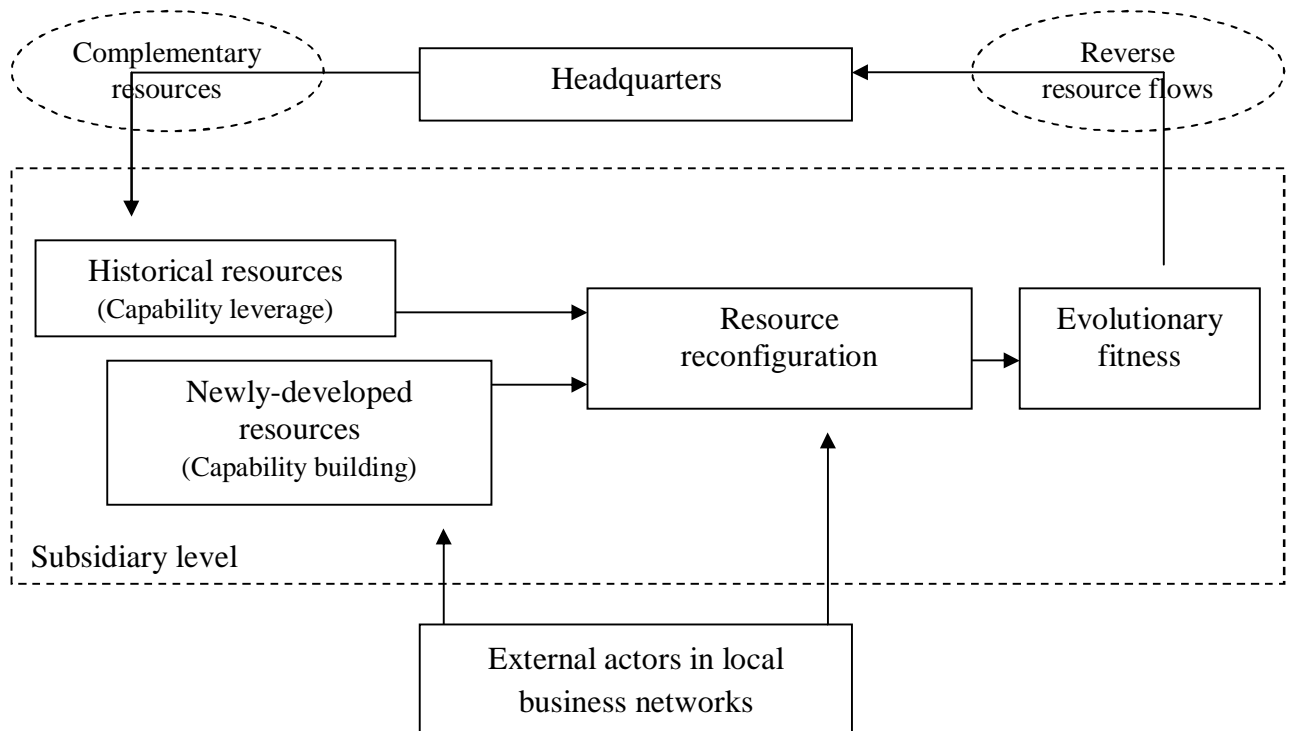


Figure 2.5 A preliminary conceptual framework

Chapter summary

In this chapter, the literature most closely related to this study pertaining to FDI from EMNEs, subsidiary development and the DCV were reviewed. Grounded in the context of changing FDI from EMNEs investing in other emerging economies, a research gap regarding subsidiary transformation was identified which this study aims to address. That is, the aim is to explore how the subsidiaries of EMNEs that were originally positioned towards the export market have reconfigured their resource bases so as to transform themselves into having a host market orientation. Moreover, after reviewing the literature on subsidiary development and the DCV, together with two complementary perspectives- capability leverage & capability building and the relational view, a preliminary conceptualisation framework was generated. This encompasses three main features: resource bases of subsidiary organisations, inter-

firm relations with external actors in the host environment, and headquarters-subsidary relationships, which will all be analysed in the chapters following that containing the methodology, which comes next.

Chapter 3 Methodology

3.1 Introduction

This chapter starts with a brief discussion on the philosophical assumptions underpinning this study in terms of its ontological and epistemological foundations (section 3.2). Following an exposition of the research design (section 3.3), the main method adopted in this study, a multiple-case study, is introduced (section 3.4). The next section discusses the semi-structured interview approach, which is the main strategy applied to collect data. Furthermore, the steps regarding data interpretation and analysis are discussed (section 3.6), which allows for the focal practice investigated, host market-seeking transformation of subsidiaries, to be assessed. Finally, section 3.7 addresses the issue of presentation of the research findings through a review of other empirical studies that have adopted a multiple-case study approach, so as to elicit the best practice that subsequently can be applied to this study.

3.2 Philosophical assumptions

Philosophical assumptions guide researchers in setting up the appropriate methodologies for their research (Cresswell, 2007). In this section, the ontological and epistemological basis of this study is briefly explained in order to underpin the methodological details that are presented in the later sections.

As shown in figure 2.5, the conceptual framework of this study consists of the internal and external networks of subsidiaries and the main actors involved in the whole transformation process include: the subsidiary organisations, the external actors in the local business network and the headquarters. That is, the aim is to investigate the process of subsidiary transformation by interpreting the interactions between these actors. As such, the ontological assumptions of this study comprise the context-specific inter-subjective reality of the actors involved in the process (Burrell & Morgan, 1979; Pauwels & Matthyssens, 2004). Moreover, given that this study is grounded in a specific context, that of EMNEs transforming their subsidiaries from export-orientation to host market orientation, the ‘contextualised explanation’

approach (Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mantymäki, 2011) is employed for analysing the focal practice, the outcomes of which can be generalised to other contexts.

Turning to epistemology, this refers to the concept of knowledge regarding how researchers understand the world and communicate this as knowledge to fellow human beings (Burrell & Morgan, 1979, p.1). Given that the conceptualisation of this study is initially shaped by theories relevant to the research questions and then subsequently modified by the findings generated from the case studies, the epistemological stance adopted involves the feature of abductive or retroductive paradigm (Dew, 2007; Locke, Golden-Biddle, & Feldman, 2008; Sinkovics & Alfoldi, 2012). That is, unlike studies adopting grounded theory and quantitative methods with the purpose of theory-building and theory-testing, respectively, this study attempts to refine existing theory by eliciting and analysing contextual knowledge.

Under this lens, inspired by extant theories, a preliminary conceptualisation framework for guiding the data collection is built up. After collecting and then interpreting the data comprising correlated events and settings (Eriksson & Kovalainen, 2008), the findings from the case companies will enable refining of the framework, so as to gain a deeper understanding of the focal practice investigated in this study: host market-seeking transformation of subsidiaries.

3.3 Research design

Given that this study aims to investigate the resource reconfiguration process, e.g. involved in subsidiary transformation, qualitative methods are fitting with the nature of this study, because they are suitable for addressing how questions (Cresswell, 2007; Gummesson, 2000). Among the qualitative methods, case study is considered particularly appropriate for exploring the detailed understanding of social or organisational processes (Hartley, 2004), or to explain a contemporary phenomenon within its multiple contexts, especially when the actors' boundaries are not clear to researchers (Yin, 2009) and hence is employed for this research. That is, a multiple

case study approach is adopted for this research, as explained in detail in the next section.

Unlike qualitative research with the goal of generating novel theories without pre-existing theoretical foundation, the present study is phenomenon-driven research (Eisenhardt & Graebner, 2007). The theories relevant to the focal phenomenon, host market-seeking transformation occurring in the subsidiaries of EMNEs, are reviewed to build up a preliminary conceptualisation framework. To this end, the literature on subsidiary development and the DCV are employed to shape the preliminary conceptualisation comprising three elements: subsidiary organisations, inter-firm relations with external actors and headquarters-subsidiary relationships. Moreover, the related literature is not only applied to shape the conceptualisation, but also to guide the direction of the data collection (Andersen & Kragh, 2011).

Beyond the theories used to delineate the boundaries of this study, complementary theories are further identified during the first round of data collection and analysis. That is, the researcher combines both the perspectives of existing theory and the data collected during the initial stage to establish the preliminary conceptualisation consisting of border theories along with complementary ones. As indicated in Chapter 2, the existing theories on subsidiary development and DCV are the main component aspects of the conceptualisation framework of this study, while the concepts of capability leverage and capability building together with the relational view function as complementary perspectives to the former (as figure 2.5). In this sense, the research design of this study takes the form of *“progressive focusing”* (Sinkovics & Alfoldi, 2012; Stake, 1995, 2010), referring to the constant revisiting of the interaction between the literature review, data collection and data analysis. In other words, both the perspectives of theory and data are considered by the researcher simultaneously, rather than in a linear form. Subsequently, the findings coupled with propositions raised by this study are expected to elaborate upon the pre-existing theoretical framework (Andersen & Kragh, 2011), thereby providing new knowledge for future examination in the field.

Regarding the approaches to theorising from case studies, Welch et al. (2011) have proposed four types based on studies published in leading business journals: inductive theory building, interpretive sensemaking, natural experiment and

contextualised explanation. Following the approach of contextualised explanation, the intention is to investigate the focal practice through identifying the causal relations between the constructs interpreted from the data. On this basis, the transferability of this study's findings is confined by the context sensitivity. Future studies could examine whether the contexts matter by adopting comparative studies to establish whether the new knowledge from this research is context-bound or context-free (Meyer, 2007; Tsui, 2004). The research design of this study is illustrated in figure 3.1.

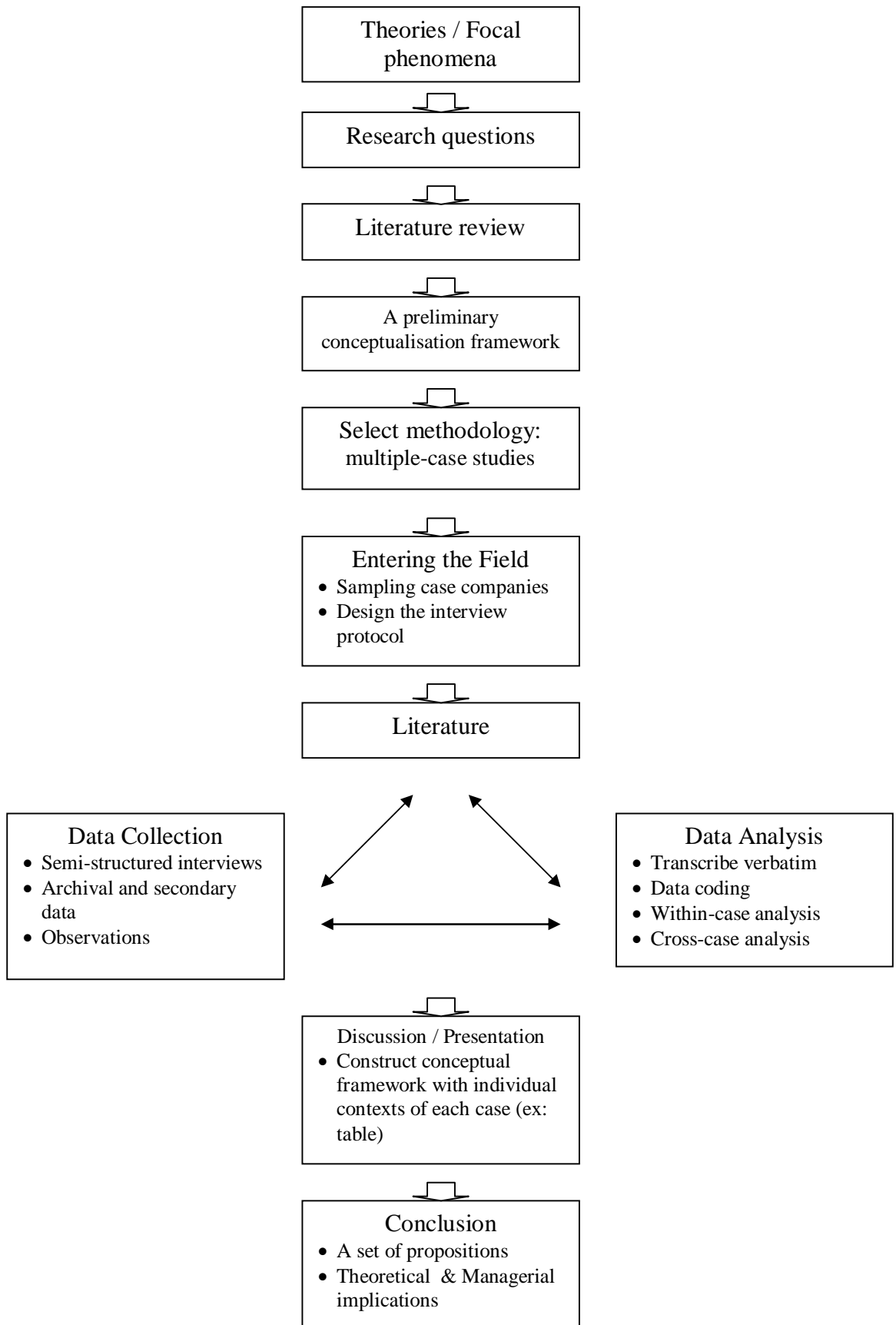


Figure 3.1 Research design

3.4 Research approach: Multiple-case study

Different from a single-case study in which the major concern is the phenomenon in its own context, the key feature of a multiple-case study is the carrying out of replicated experiments in the different cases (Eisenhardt, 1989; Eisenhardt & Graebner, 2007). In general, the cases which are selected for investigation have experienced the events regarding the same issues or phenomena (Stake, 2006). Through gathering information from multiple cases using the same pattern, i.e. by using a consistent procedure for interviewing and uniform interview protocols, it is possible to make generalisations from the findings. Nevertheless, the challenge arising from data analysis of multiple-case studies is how to achieve a balance between the particular and the universal (Miles & Huberman, 1994). That is, the difficulty that researchers often encounter is how to ensure that the level of investigation is at the right pitch so as to be able to identify common features among cases and thus propose valid generalised interpretation.

To address the criticism that there is a lack of methodological rigour in the case study approach, Pauwels and Matthyssens (2004) suggested a framework for adopting multiple-case studies in the field of international business. They used the term architecture to represent a conceptual structure, which comprises pillars and a roof. The four pillars referred to are: theoretical sampling, triangulation, analytical pattern-matching logic and analytical generalisation, whilst validation achieved through the juxtaposition and iteration of data, is conceptualised as being the roof that is shored up by these four pillars. Theoretical sampling means that the cases are selected for theoretical reasons, such as for the replication of findings from other cases (Eisenhardt & Graebner, 2007), rather than on the grounds of statistical significance. Furthermore, the purpose of adopting triangulation is to avoid misinterpretation or oversimplified explanations in relation to the collected data. Analytical pattern-matching refers to the process that researchers tease out similarities and differences through making comparisons between the model emerging from the cases and the predicted form drawn from the literature. Lastly, generalisation refers to the extent to which findings can be applied to other contexts.

Continuing with the architectural metaphor, the roof represents the validation of research through carrying out juxtaposition and iteration. The former means that

researchers compare simultaneously the: empirical data, extant literature and emergent theory and thus the findings can be positioned among the existing theory, whilst the latter refers to continuous comparisons back and forth between case selection, data collection, data analysis and existing theories (Pauwels & Matthyssens, 2004). For instance, the new viewpoints generated from the analysis may create the need for supplementary interviews. In all, the whole analytical process of the multiple-case study method progresses iteratively rather than along a linear trajectory.

With regards to the designs for case studies, Yin (2009) proposed four types by two dimensions of unit of analysis (UA) and the number of cases. In this regard, given the context of this study, which covers actors across different locations, the design of a multiple-case study, which encompasses multiple UAs, is considered to be the most appropriate. More specifically, as shown in figure 3.2, in this study there are three UAs embedded in each case: the subsidiary organisations, the external actors in the local business network, especially the distributors holding the market access, and the headquarters-subsidary relationships.

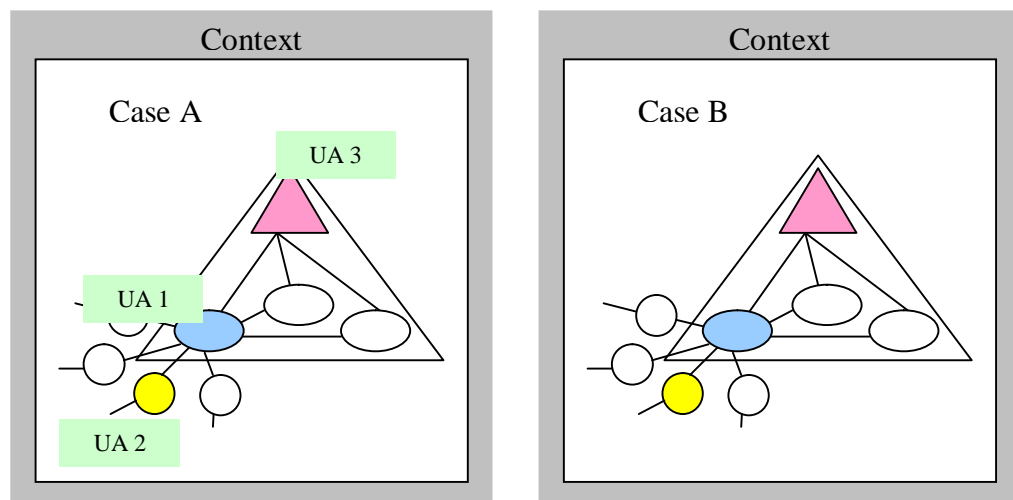


Figure 3.2 Design of the multiple (two) -case study

3.4.1 Strategies for sampling case companies

With regards to the sampling the appropriate cases when adopting the case study method, a purposive sampling guided by the theoretical concepts is commonly adopted by researchers (Cresswell, 2007; Kuzel, 1999; Miles & Huberman, 1994; Stake, 2006). However, those adopting a theory-driven or a phenomenon-driven case study follow different rules. For the former type, they select samples for theoretical reasons, such as revelation of an unusual phenomenon, replication of findings from other cases, elaboration of the emergent theory (Eisenhardt & Graebner, 2007; Pauwels & Matthyssens, 2004). For researchers pursuing the latter type of case study, they select samples from those entities that are undertaking the focal practice being investigated.

As phenomenon-driven research, for this study sample companies from those that have undertaken subsidiary transformation in the Chinese market were selected. In addition, the framework proposed by Rouse and Daellenbach (1999) was applied for addressing the limitations of strategic research that adopts cross-sectional analyses on the basis of large samples across industries. These scholars suggested a four-step framework to facilitate an effective exploration of the sources of competitive advantage, comprising the following actions: (1) select an industry and generate performance data and rankings from secondary sources; (2) cluster firms by strategic type or group within the industry selected (using secondary or primary data); (3) compare performance indices within strategic groups and (4) identify those firms within each strategic group that are the high and low performers (Rouse & Daellenbach, 1999, p.489). In view of the purpose of this study was to investigate the resource reconfiguration process derived from subsidiary transformation, it is appropriate to select case companies by applying this framework.

Given that the electronics industry has been not only the pillar industry of Taiwan, but also the main industry to have made massive investment in China, this group of Taiwanese MNEs were potential samples. After evaluating their sales performance and brand awareness in the Chinese market together with the accessibility for the researcher, two companies were selected. In order to protect anonymity, the names of companies have been replaced with the pseudonyms Alpha

and Beta throughout the whole document. Moreover, HQ and SUB are used to refer to the headquarters or the subsidiary in China of each case company, e.g. A-HQ, A-SUB.

3.5 Data collection

The purpose of data collection is to obtain evidence from multiple sources (Yin, 2009). However, this broad objective has often been oversimplified to that of merely adopting interviews or making observations (Cresswell, 2007). Cresswell (2007) devised an approach that considers data collection as being a circle, which includes: locating sites for data collection and appropriate individuals, gaining access, selecting proper samples, undertaking interviews and recording and sorting data. Consistent with the framework that is being used in this study, this section not only explains the two main types of data sources, interviews and secondary data, but also addresses the sampling strategy and potential ethical concerns.

3.5.1 Semi-structured interviews

Usually interviews are employed by means of interactive conversations between interviewers and interviewees, around a set of questions devised for the specific research (Daniels & Cannice, 2004). Three main types of interview may be identified based on the extent of the structure in the interview: unstructured, semi-structured and structured interviews (Gillham, 2005). According to the nature of the study, researchers select the appropriate type of interview, e.g. the unstructured interview tool is suitable for use in an exploratory study that aims to obtain an overall understanding of the research topic. In contrast, structured interviews are more usually applied as questionnaires and the results can be readily subjected to forms of quantitative analysis. Situated at the interface of the unstructured and structured interview tools, the semi-structured interview provides flexibility with a structured framework. That is, in the light of the responses given by the interviewees follow-up questions can be put either to elicit more information on a particular issue or address related topics and thus achieve a fuller understanding of the issues. That is, researchers don't need to adhere rigidly to the original questions on the interview protocol and thereby miss out on the opportunity to gather more complete data (Gillham, 2005).

In practice, researchers normally prepare a set of: main questions, follow-up questions and further probes to use when they carry out interviews (Rubin & Rubin, 2005). These main questions are derived from the research questions, but they usually have to be written in a more accessible form so as to enable interviewees to provide informative responses. The subsequent follow-up questions consist of related key words then are used to gather further information if the initial responses are too general. Taking the example of a resource-related question that is central to this study, table 3.1 presents the hierarchical relationships between the research question, the main questions in the interview and follow-ups. In addition, several probes, the functions of which are to help researchers manage the process of interviewing through: controlling the length of answers, clarifying meanings, or keeping the conversation on track. The details regarding how the semi-structured interviews were designed in this study are presented as the interview protocol in appendix 1.

Table 3.1 Drawing main questions and follow-up key words subordinated to one research question (example)

Research Question	Main Questions	Follow-up Key Words
1. How does a subsidiary reconfigure its resource base when its positioning is changed?	<ul style="list-style-type: none"> • Were the initial resources and capabilities appropriate for dealing with the new situation? If not, what were the most relevant ones? • How did your company (subsidiary) acquire the resources and develop the capabilities needed? • Did your company acquire any resources from the host country? 	<ul style="list-style-type: none"> • Key resource and capability among the change • Marketing-oriented resources and capabilities • Distribution System • Brand • Product (close to consumer need)

Regarding the external actors which subsidiaries have contacted with as they operate in the host market of China, the pilot interviews of senior managers of Taiwanese MNEs carried out in 2005 and 2006 allowed for the identification of the distributors who played the most critical roles when the interviewees started to operate in the host market in China. Apart from the opinions solicited from the practitioners with years of marketing experiences, some literature also has highlighted

it is essential to maintain stable relationships with distributors when trying to secure a market presence in an emerging economy like China (Jaffe & Yi, 2007; Zhang, Cavusgil, & Roath, 2003).

With regard to the interview practices in this study, in most cases the researcher started them with a friendly warm-up by introducing the research background, and then followed this by asking the interviewees to talk about their experiences of doing business in China. In between asking the questions listed in appendix 1, the researcher often sought clarification of the meaning of interviewees' responses by asking follow-up questions. Moreover, during the interview process they were regularly left free to talk about the related issues without any presumption being made. The average length of each interview was approximately one hour and the recorded responses were subsequently transcribed as part of each case company's data bank.

Following the interview protocol, in total, 26 in-depth interviews with 24 informants were carried out between July 2010 and January 2012. The informants included the staff from two case companies holding years of experience in operating the Chinese market, and their key distributors in this market. Table 3.2 provides the background of the informants in each case company along with the number of interviews (the background of the informants is listed as appendix 2).

Table 3.2 Overview of data collected from the case companies

Category: Interviews					
Case	Level	Departments	Positions	Number of Informants	Number of Interviews
Alpha	Headquarter	Business Unit	Director (A12)	1	1
			Senior Product Manager of Display Product (A13)	1	1
	Subsidiary	Marketing	Former Head (A01)	1	5
			Head (A02)	1	2
			Former Senior Vice President (A03)	1	*
			Director (A04)	1	*
			Head of Display Product (A05)	1	*
			Head of Regional Market (A06/A07)	2	2
			Manager of Regional Market (A08/A09)	2	*
		Manufacturing	Former Director (A10)	1	2
			Director (A11)	1	1
	Distributor (city & province level)		CEO (A14/A15/A16)	3	2
Beta	Company Established Beta (In Taiwan)		Chairman (B06)	1	2
			President (B07)	1	*
	Headquarters (in Shenzhen)	Marketing	Vice Chairman (B01)	1	2
			Director (B02)	1	1
			Manager of Regional Market (B03)	1	1
		Product Development	Head of Kitchenware Products (B04)	1	1
		Administrative	Editor of Internal Newsletter (B05)	1	1
	Distributor (city & province level)		CEO (B08/B09)	2	2
Total				24	26
Category: Secondary Data					
Case	Type	Published Year		Number of Issues	Note
Alpha	Book	2003		1	
	Newsletter (for distributors)	2011		1	
Beta	Newsletter	Quarterly issued since 1994		26	

* The interviewees were jointly interviewed with other informants

3.5.2 Other types of data

In addition to the records of the transcribed interviews, other types of data were gathered to serve as sources of evidence (Yin, 2009), including records of observations and relevant documents (Cresswell, 2007). The former refers to the notes taken from direct observations in the field, whilst the latter covers various types of data, including annual company reports, company websites, newsletters published by the case companies to news stories. That is, a variety of secondary data regarding case companies released in Taiwan or China were systematically collected and this archival and secondary data facilitated triangulation of the data generated from interviews. Hence, stronger interpretations can be made as the study findings are supported by evidence collected from a variety of sources. Data collection stopped when the saturation of interpretation on a specific issue was reached, whereby no addition understanding was likely from carrying out further interviews (Lee, 1999; Strauss & Corbin, 1998).

3.5.3 Access to the field and ethical issues

In terms of gaining entry into the field, some connections made by previous business visits allowed for easier access to the targeted companies and relevant research materials. Meetings were held with senior managers at the targeted companies, particularly those who are operating or have previously operated in the Chinese market, so as to obtain their agreement to interviewing with their staff in the parent company and foreign subsidiaries. In addition, the details of the research were explained including: the nature of the interview questions, the analytical process, the relevance of the research to business and related ethical issues, with the general aim of obtaining informed consent (Eriksson & Kovalainen, 2008). With regards to protecting anonymity, the names of the companies and the individual informants are presented as pseudonyms throughout the whole thesis, as was explained to those participating prior to being interviewed.

3.6 Data analysis

The aim of adopting data analysis is to reduce a large amount of collected data down to themes, so as to allow for interpretation of meanings and then to present these findings through discussions or visual patterns (Cresswell, 2007). In this section, the principle of within-case analysis is reviewed and then cross-case analysis is discussed. By adopting the former, researchers are able to identify the inherent logic of the focal practice investigated, whereas they adopt the latter so as to clarify whether a finding is specific to a single case or repeatedly emerges in different ones (Eisenhardt & Graebner, 2007).

3.6.1 Within-case analysis

In this study, the data analysis process follows the framework set up by Ritchie et al., (2003), which includes the three stages of: analysis- data management, giving descriptive accounts and positing explanatory accounts. In addition, the coding process and skills are largely guided by the Saldaña (2009) manual.

The first stage of the analysis, data management, refers to dismantling the interview transcripts and other types of secondary data into passages, and then coding them by using short words or phrases, which is an essential transitional process linking data collection and analysis (Saldaña, 2009). Next, during the stage of giving descriptive accounts the codes were grouped into categories according to similarities and regularities. Unlike codes which represent the basic topics of excerpts, categories are words or phrases interpreting the meaning of the synthesised data in a more conceptual way (Ritchie, Spencer, & O'Connor, 2003). Under the categories, subcategories were used to display the hierarchical structure between them. During the analysis process, some categories/subcategories were reclassified to their correct places, whilst others were dropped. In the third stage, extending from the previous two stages with a topic-capturing nature, the meanings and construct explanations regarding the interrelations between categories were identified (Yin, 2009), which allowed for the generation of themes/concepts. These were further developed into theoretical constructs which enabled reflection on extant theories and hence, uncovered the theoretical contributions of this work.

With regards to the coding methods adopted in the data analysis, the two-cycle coding procedure advanced by Saldaña (2009) was followed. In the first two stages of the analysis, descriptive coding and structural coding were used to reduce, summarise and condense the interview transcripts and secondary data into topics. Given that the extant literature guided the data collection of this study, i.e. the design of the semi-structured interview, structural coding was deemed more suitable than open coding for this study. During the third stage of analysis (or second-cycle coding), pattern coding was adopted to identify emergent themes and constructs, and then to develop the explanations for the interrelations among them (Miles & Huberman, 1994; Saldaña, 2009). In addition, strategies for theorising processed data, such as the visual mapping strategy and the temporal bracketing one (Langley, 1999), were adopted to display the linkages between categories and concepts. To complement these simplification techniques, the strategy of narrative structuring (Lee, 1999) was used for providing background information of the key events regarding the focal practice investigated in this study, i.e. host market-seeking transformation of subsidiaries⁵. The process of the within-case analysis is shown in figure 3.3. In addition table 3.3 displays the hierarchical relations between theme/concept, category, sub-category and code along with the evidence of the case companies.

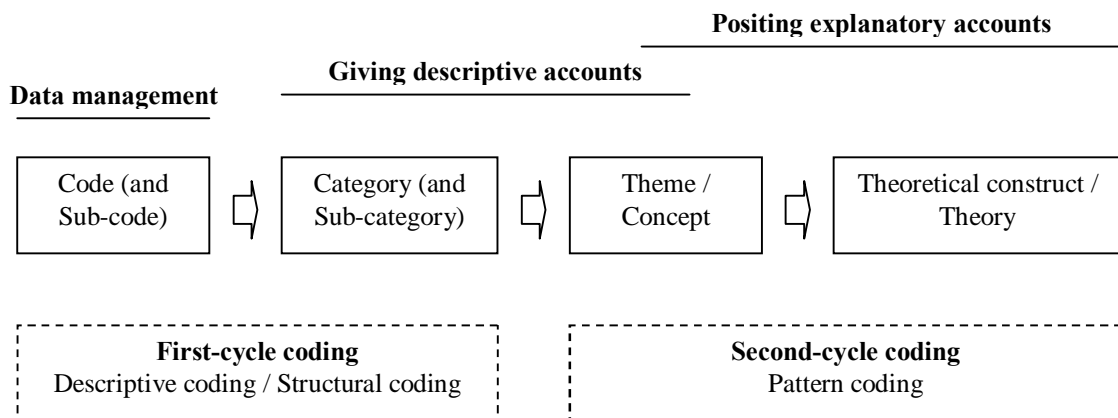


Figure 3.3 Multiple-layer order of coding process

⁵ Chapter four provides the background information on the key events associated with the subsidiary transformation of the two case companies.

Table 3.3 Overview of hierarchical structure of theme/concept, category, sub-category, code and examples of data collected

Theme / Concept	Category	Sub-category	Code	Example
Extensively operating the existing business model of contract manufacturing	Upgrading the manufacturing and related resources / capabilities	Improving the quality of product	Quality of product / Responses from clients	“The quality of the products manufactured by us also had to exceed that of goods made by our counterpart in Malaysia. (Book 1, p.162)”
		Providing after-sales services to clients	Maintenance services / Connections to Distributors / Providing assistance to distributors	“A-SUB became the provider of after-sale services for leading PC marketers, such as HP, in the Chinese market. (Book 1, p.153)”
		Increasing the manufacturing capacities	Setting up more assembly lines / Investment in factory equipment	“In the mid 1990s, B-SUB increased its manufacturing capacities together with an improved quality of product. (Newsletter, 56, 2009)”
	Getting orders from additional clients	-	Getting additional orders from local PC brand marketers (Case A)	“By the end of 1990s, the great reputation for quality of product and service provided by A-SUB enabled it to approach local personal computer makers in China. (Book 1, p.153)”
		-	Getting additional orders from Korean/Japanese clients (Case B)	“After repeatedly being reviewed by the Japanese clients, B-SUB eventually got approval of its quality of product and thus was able to commence providing contract manufacturing for these companies. (Newsletter, 56, 2009)”
Capability leveraging	Exploiting the value of historical resources	Selling the products originally for the export market to the host market in China	Tapping into the host market on a trial basis	“We selected the product items originally exported to Japan and then promoted them in the Chinese market. (Newsletter, 56, 2009)”
		Utilising R&D resources	Further applying R&D	“We applied the advanced technologies which were

Theme / Concept	Category	Sub-category	Code	Example
		originally for the export business to support the host market business in China	outcomes	originally for the export business to the domestic market. (Newsletter , 56, 2009)ö
		Assigning staff for the host market business without recruiting new ones	Some engineers were assigned to set up the marketing department	öThe first five managers of A-SUBø newly-established marketing department came from the manufacturing department. (Book 1, p.151)ö
		Supporting the host market business with the profits generated from the export business	Covering the losses from the host market business	öWe poured the profit garnered from our export business to support the marketing activities in China. (Newsletter, 56, 2009)ö
	The measures adopted to avoid the possible conflict derived from capability leverage (i.e. the scepticism from foreign clients)	-	Slightly changing the specification of products for operating in the host market in China (Case A)	öThe specifications of the products were subtly changed to avoid direct competition [with our key clients]. (informant A02, A05)ö
		-	The products carrying its own brand were sold in China only (Case B)	öThe products carrying its own brand have been sold in the Chinese market only, while the products it has manufactured for its clients are exclusively sold outside of China.ö
Capability building	Changing the organisational structures so as to respond to the host market-orientation	Building up a marketing team specific for the host market business	Recruiting marketing staff / Training courses in marketing	öA-SUB expanded its marketing department by recruiting graduates from local universities.ö
		Practices about the changes in organisational structure	Establishing organisational units for the different marketing functions	öIn the case of A-SUB, after it commenced the branding business in 2001, four functional divisions: products, channels, market communications (MARCOMM) and a support service, were set up to operate in the emerging market in China.ö

Theme / Concept	Category	Sub-category	Code	Example
	Changing the business process with a marketing-centric feature	The marketing department dominating the business process of product development	Meetings led by the marketing department /	“Our department [department of R&D and product development] transforms the ideas of new products, which are provided by the “marketing headquarters of the Chinese market” into the production process. (informant B04)”
	Investing in the complementary resources for operating in the Chinese market	Establishing MIS with the purpose of operating in the host market in China	Collecting real-time market information / quick response to market change	“Equipped with an information system linking the marketing offices in provinces and cities in China, the marketing headquarters of Chinese market is now able to sense in a timely manner the market changes according to the information collected from the host market. (Newsletter, 60, 2010)”
	The gap between local market demand and the extent of product portfolio (the issue of responsiveness to local demand)	-	The HQ-dominant process of setting subsidiary product portfolios (Case A)	“From the distributors’ views, Alpha is keen to develop new products carrying advanced technologies, however, they are neglecting the mainstream market. (informant A15)”
		-	Developing the products specifically for the host market in China (Case B)	“Since 2010, B-SUB has extended its product portfolio from electronic fans and heaters to kitchenware goods, which are targeted at an expected increase in future demand in the Chinese market.”
Coordination capability	Ambidextrous nature of operating the export and host market businesses	Operating contract manufacturing and branding businesses at the same time	Exploring the host market without curtailing export business	“With the growing business in the host market, A-SUB and B-SUB were gradually transformed into subsidiaries operating in the export and host market simultaneously”
		The organisational practices in relation to operating the two types of businesses at the same time	Commonly shared resources by the two businesses	“R&D, testing, moulding and manufacturing are the main resources shared by the contract manufacturing and host market business” However, we [marketing headquarters of the Chinese market] manage the market research,

Theme / Concept	Category	Sub-category	Code	Example
				product development, branding positioning ourselves. (informant B02)ö
		The distinctive differences in operating the two types of businesses	Operating in the host market in China by the case companies themselves / Contacting consumers directly /	öCompared to the export business which largely follows the expectations of clients, we have to operate the brand and contact customers so as to respond to the changing market demand. (informant B02)ö
		The benefits of operating the two types of businesses at the same time	Economies of scale / Resource sharing	öIn the case of B-SUB, its profit margins have been healthy and stable for several years with each part of the business representing approximately half of the turnover, thereby endorsing the balanced strategy that has been employedö
	Addressing the potential conflict between the export and host market businesses	-	Training labour for coping effectively with a wide range of orders (Case A)	öWe needed to train the workers on assembly lines to be able to cope with different types of orders, rather than categorising them into either the export or host market. (informant A10)ö
		-	Initially prioritising the orders of the export market (Case B)	öGiven that the delivery dates are relatively flexible, the manufacturing department manage the orders of the export market with top priority. (informant B02)ö
		-	Equally treating the export and host market business, because of the growing profit generated from the latter (Case B)	öWith the growing importance of the host market business reflected by the increasing volume of orders, the two types of orders are now being given a more equal status.ö
Governing the	Principles of designing the	Allocating individual market	Partitioning market	öOur principle for selecting distributors is ölooking for a

Theme / Concept	Category	Sub-category	Code	Example
relations with distributors	distribution system	area to single or a limited number of distributors	areas / Searching for suitable distributors to manage the market areas	few distributors handling one small area. (informant A01, 04)ö
		Operating a highly self-controlled distribution system by the case subsidiaries	Contacting the distributors directly / Not relying on national-level distributors	öWe are directly operating about 600 city-level distributors by ourselves. (informant A04)ö
	Governance mechanisms adopted by the case companies	Adopting the reward systems so as to encourage the sales of distributors	Financial incentives for sales / Providing support for the promotion activities of the distributors	öA-SUB has implemented price-protecting measures that involve setting the bottom price levels for our goods, which helps in securing the profits of our distributors. (Book 1, p.326)ö
		Providing training resources to distributors so as to elevate their marketing competences	Training courses and materials in marketing Consultancy when setting product portfolios	Both case subsidiaries organised training courses and provided a management advice service, thereby strengthening the marketing capabilities of the distributors.
The distributors getting involved in the host market operation of the case subsidiaries	Setting product portfolios for the host market in China	The function of annual meetings in setting the product portfolios of the market areas	Introducing new products / Collecting orders from the distributors / Exchanging market information	öAfter the new products are launched at the annual meetings for the distributors, the marketing department can estimate the production volume by collecting orders from the distributors in different cities and provinces. (informant B01)ö
		The distributors being allowed to change slightly the procurement guidelines provided by the case	Distinctive demand of individual market areas	öUnder the guidelines of procurement [provided by A-SUB], we are allowed to make some changes so as to meet market demand. (informant A14)ö

Theme / Concept	Category	Sub-category	Code	Example
		subsidiaries		
	The process of developing products	The critical roles of first-tier distributors in setting product portfolios	Being invited to review new products / Privileged treatment from other distributors	öThe original idea of developing this new product was suggested by our first-tier distributors. (informant A02)ö
		-	The dominant role of headquarters in their subsidiaryø setting up of the product portfolio (Case A)	öGiven that we combine the existing peripheral products together like a set, rather than adapting specifications of them, we largely reduce the time in communicating with staff in headquarters. (informant A02)ö
		-	High subsidiary autonomy in developing products (Case B)	öA few first-tier distributors are invited to review the new products before they are launched. (informant B01)ö
	The complementary resources/capabilities for operating in the host market business	Delivering products only after distributors have made the payments	No trading by credit / Payment measures	öWe [A-SUB] dispatch the product items after the distributors have made payment in full. Once we have received payment, the product items must be delivered within 24 hours. (informant A01)ö
		Providing a reliable logistics service to distributors	Reliable logistics services / Setting up warehouses in places	öGiven the limited storage space of the distributors, we [A-SUB] have to arrange the logistic services accurately, otherwise they canø replenish the shelves in time.. (Book 1, p.196)ö
		The management information systems being built up for operating in the host market in	Collecting real-time market information / Linking different actors	Now that the ERP systems have been put in place, staff in the sales division can inquire about data at anytime and hence, maintain good trusting relations with the clients.

Theme / Concept	Category	Sub-category	Code	Example
		China	involved into the host business	(Newsletter, 59, 2010)
Evolutionary inter-firm relations with distributors	Strategically changed the structure of distribution system	Requesting distributors to explore the untapped town and village markets	Lower-tier town and village markets / Reducing the layers of distributors	“If we can deliver products to the lower-tier city or town markets and the reduced layers of distribution channels enable us to have direct contact with more consumers.(informant B08)”
		Constraining the distributors from over-dominating the market areas	Further partitioning the market areas into smaller ones / Seeking additional distributors	“We [A-SUB] will seek another distributor if the extant distributor managing the market area has developed a high degree of dominance. (informant A04)”
	Further coordinating with the first-tier distributors	Providing financial support for the first-tier distributors	Assistance to distributors in getting loan from banks	“B-SUB functions as financial platform to help some key distributors get loans from banks through jointly sharing risk. (informant B01)”
		Initiating joint venture projects with key first-tier distributors	Establishing province-level sales companies in a joint venture mode	“B-SUB established three provincial branches after proposing joint venture projects with first-tier distributors in 2007. (informant B01)”
Organisational settings and relationships between HQ and SUB	The organisational setting of each case company	Multiple levels of PMs have been in charge of communications between HQ and SUB (Case A)	Functions of business unit heads / Business line managers / PMs	Alpha established multiple-level product managers (PMs) in A-HQ and A-SUB to manage the communications between the two (as shown as figure 7.1)
		HQ and SUB split into two organisational entities (Case B)	Applying for listing on the overseas stock market / Application requirements	In 2000, B-HQ and B-SUB turned into two independent business entities in order to apply to have the latter listed on the Hong Kong Stock Exchange (HKEX)
	The role of HQ in product development	HQ has dominated the process of product development (Case A)	The products launched by SUB required the approval from	“Any host market-oriented items have to be approved by headquarters before formally being rolled out. (Informant A04)”

Theme / Concept	Category	Sub-category	Code	Example
			headquarters (Case A)	
			A-SUB is allowed to search for local suppliers by itself (Case A)	öThe subsidiary in China is empowered by headquarters to search for subcontractors and sets the prices by itself. (informant A13)ö
		The roles of headquarters were gradually replaced by the subsidiary (Case B)	HQ had once controlled the manufacturing process of the subsidiary (Case B)	Before 1997, the R&D activities [of B-SUB] were entirely controlled by headquarters [B-HQ]. Following the instructions from headquarters, we manufactured the samples to the specifications provided. (Newsletter, 60, 2010)
			SUB has come to possess more managerial functions (Case B)	By about 1997, B-SUB had almost replaced all the managerial functions of B-HQ.
	HQs-SUB relationship	Reaching a balance between local responsiveness and the global orientation of HQ (Case A)	The responses of SUB to HQ policy	öWe [A-SUB] launched the products by utilising the resources under our controlí We also saved time in communicating with headquarters because no changes in specifications were needed. (informant A01)
		HQ has continued to control some managerial functions of SUB (Case A)	The affairs managed by HQ staff / The affairs which are fully controlled by SUB	öOn the marketing side, the product design and pricing are managed by the öBusiness Divisionö in headquarters, while launching promotion activities and managing distribution channels are our [A-SUB] responsibilities. (informant A12)ö
Forward direction of resource flows	Equipping the subsidiaries in China with complementary resources	Product development and R&D resources have been mainly controlled by HQ (Case A)	A-SUB receiving R&D resources / following instructions from A-HQ	öR&D activities have been mainly managed by headquarters [A-HQ]. The öAdvanced Technology Centreö was established in Taipei, which is positioned as

Theme / Concept	Category	Sub-category	Code	Example
between HQ and SUB	for operation of the host market business			providing and applying the latest technologies to the new products. (Informant A01)ö
		Strengthening the responsiveness of subsidiary to host market demand (Case A)	Subsidiary-level technology product centre (A-SUB)	öA subsidiary-level ötechnology product centre (Suzhou)ö was established in A-SUB in 2011.ö
		The complementary resources were gradually built up in the host country (Case B)	R&D dept. / Industrial design dept. / Testing dept.	öThe engineering department [of B-SUB] was established in 1997, and then merged with the R&D department in the next year. [Given the localised R&D capabilities] We decided to shift the development process from the parent company to the subsidiary in Shenzhen. (Newsletter, 60, 2010)ö
Backward direction of resource flows between HQ and SUB	The changing roles of the home country for SUB	Exploring the home country market by selling the products launched by SUB (Case B)	Testing the market of the home country on a trial basis / Choosing the distribution channels that fit with brand image	Since 2010, the products carrying brand Beta have been promoted by B-HQ in chain shopping malls in the Taiwanese market.
		Acquiring financial capital from the stock market of the home country (Case B)	Listing on the stock market of the home country	B-SUB has considered applying to be listed on the Taiwan Stock Exchange (TWSE).
		Initiating projects with universities for obtaining technological resources (Case B)	R&D projects / Advanced technologies in electrical fan making	Since 2010, B-SUB has approached some Taiwanese universities to organise cooperative projects in the mechanical engineering field, which demonstrates that the home country is seen as a source of advanced technologies by B-SUB.

3.6.2 Cross-case analysis

Cross-case analysis has been considered as the most critical part of a multiple-case study as it facilitates the integrating of the findings of individual case studies (Yin, 2003). Miles and Huberman (1994) maintained there are two reasons for undertaking cross-case analysis, the first being to enhance transferability, that is, for establishing common explanations across the findings gathered from the different sites. This is where researchers seek to recognise the patterns of relationships among constructs and across cases and their underlying logical arguments (Eisenhardt & Graebner, 2007, p.25). In practice, the findings from the initial stage, e.g. the pattern generated by the first case is seen as an emergent one, and then this is compared to other cases to evaluate the level of replication. The second reason is to deepen researchers' understanding of the focal practice, by exposing them to other similar settings, thus allowing for more comprehensive insights into the phenomena under investigation.

However, a critical challenge that faces researchers adopting cross-case analysis is the tension that lies between the particular and the universal (Miles & Huberman, 1994) when judging how to condense properly the various different observations to a few common patterns. This means that researchers need to select a suitable scale so as to cluster the differences among cases, and then move towards producing more general constructs. With regards to this, some scholars have advocated the use of certain techniques in order to address the tension, such as those proposed by: Miles and Huberman (1994), Stake (2006) and Yin (2009). For instance, Stake (2006) suggested three types of tracks for carrying out analysis, whereby researchers should adopt track I to maintain the findings with the individual contexts of cases; track II to combine similar findings and keep limited contextual backgrounds; and track III to transform the findings to multiple factors where all contextual backgrounds have been removed. Furthermore, these three tracks can be taken as depicting a spectrum, one that spans across general and context-bound constructs. Below in section 3.7, the most appropriate way to achieve a balance between the two extremes on this spectrum is considered through reviewing a range of literature in which a multiple-case study approach has been applied.

3.6.3 Trustworthiness issues on qualitative research

Qualitative methods including the case study approach have encountered criticism regarding the fact that there is no agreed formula for data analysis and findings suffer from limited transferability⁶ (Ghauri & Firth, 2009; Sinkovics, Penz, & Ghauri, 2008). This lack of an accepted template for writing up or 'boilerplate', further fuels the debate regarding the necessity for creating criteria against which the quality of qualitative research can be evaluated (Lee, 1999; Pratt, 2008). In spite of this, authors have widely agreed that the concepts of credibility and dependability should be applied to qualitative studies in order to enhance their rigour (Sinkovics, et al., 2008). Through reviewing recent research that has adopted a case study method, Gibbert et al., (2008) concluded that most of the research emphasised external credibility, but paid relatively less attention to internal and construct credibility and therefore called for greater rigour in these matters so as to ensure better internal credibility and dependability (Gibbert, Ruigrok, & Wicki, 2008).

The concept of internal credibility refers to the establishing of an appropriate framework through which to analyse the relationships between variables, or designing 'experimental procedures which are sufficient to justify rejection or provisional acceptance of hypotheses' (Lee, 1999, p.152). Construct credibility pertains to the conceptualisations underpinning the research and focuses on whether the researchers provide sufficient evidence to support their interpretations. Thus construct credibility is closely related to the data collection process (Sinkovics, et al., 2008), because whether a study investigates what it claims to research is dependent on the researcher accessing and collecting appropriate data. The strategy of triangulation, whereby scholars: draw on data sources, consider the views of different investigators, employ a variety of theoretical perspectives or methods with regards to the same targets of study (Flick, 2007), is considered a robust way for enhancing the credibility of research. Moreover, in the context of using qualitative methods, triangulation has been deployed as an important technique for addressing the criticism that qualitative studies have a tendency towards over subjective interpretation.

⁶ The terms related to trustworthiness issues is following the terminology indicated by Sinkovics et al. (2008) as credibility, dependability, transferability and confirmability.

By contrast, external credibility refers to the application of the findings generated in one study to another population. Richie and Lewis (2003) further identified external credibility as representational generalisation and inferential generalisation, which means that the findings of specific samples can be generalised to the whole population and are relevant in other contexts beyond those in which the sample is situated. External credibility is largely determined by the rationality of case selection (Gibbert, et al., 2008), or the theoretical sampling process (Pauwels & Matthyssens, 2004). In sum, the term dependability refers to the consistency and stability of the research and allows for other researchers to obtain the same outcomes if they repeat it. In relation to practice, Yin (2009) suggested that researchers should prepare protocols and provide a database comprising case study information. By so doing, future research carried out under the same lens can effectively examine the credibility and dependability of the current research (Lee, 1999; Ritchie & Lewis, 2003).

In this study, the construct credibility is achieved by the chain of evidence (Yin, 2009) grounded in the interviews and secondary data collected. Through interviewing with practitioners holding years of marketing experiences in China, the distributors were identified by interviewees as the critical external actors in relation to their operating the Chinese market. Moreover, some literature also has highlighted that it is essential to maintain stable relationships with distributors for securing market presence in an emerging economy like China (Herndon, 2008; Jaffe & Yi, 2007; Zhang, et al., 2003). Subsequently, the interview protocol for guiding the semi-structured interviews was drawn up. Furthermore, the internal credibility of this study was boosted by carrying out triangulation between the various viewpoints of informants and the secondary data. The interview protocol and data bank of each case was prepared following the guidelines suggested by Yin (2009), in order to assure the external credibility or dependability.

3.7 Presentation of the findings

3.7.1 Qualitative case studies: An evaluation of practice

Two studies reviewed research published in leading management journals and reported that the use of qualitative methods is limited when compared to quantitative ones (Andersen & Skaates, 2004; Werner, 2002) and amongst these qualitative studies the multiple-case study is the most widely employed approach (Pauwels & Matthyssens, 2004). In this section, the: input, process and output pattern that can be seen in selected studies published over the last five years that used the multiple-case study approach are summarised. Subsequently, in the following section after combining the commonalities of these representative studies and some editorial reviews on qualitative research (Eisenhardt & Graebner, 2007; Pratt, 2009), the implications for this study are evaluated. Table 3.4 outlines the contents of the research projects adopted the multiple-case study⁷ approach that were featured in leading management journals between 2005 and 2010. The publications include the: *Academy of Management Journal*, *Academy of Management Review*, *Strategic Management Journal*, *Journal of International Business Studies*, *Journal of Management Studies* and *Industrial & Corporate Change*.

⁷ Single-case studies are excluded from the search.

Table 3.4 Selected management research adopting a multiple-case study approach: 2005-2010

Author(s)	Focus of the Study	Input / Empirical Basis	Process- Method of Data Collection	Process- Method of Data Analysis	Output / Contribution	Presentation of Findings
Ferlie et al. (2005)	The barriers of innovation spread caused by professionals	232 interviews in eight innovation projects from two UK health care companies	<ul style="list-style-type: none"> Semi-structured interviews 	<ul style="list-style-type: none"> Unit of Analysis: innovation project Interpretive analysis and limited quotations of the interview records 	<ul style="list-style-type: none"> Reconceptualising the non-spread of innovations within large, multi-professional organisations 	<ul style="list-style-type: none"> Tables summarising findings of each case study
Ferner et al. (2005)	The transfer of workforce diversity policy to foreign subsidiaries	Interviews in six US MNEs	<ul style="list-style-type: none"> In-depth interviews Secondary data 	<ul style="list-style-type: none"> Unit of Analysis: individual MNE Software: QSR N5 Interpretive analysis and limited quotations of the interview records 	<ul style="list-style-type: none"> Investigating how subsidiary managers implement the global policy from their headquarters in local contexts 	<ul style="list-style-type: none"> A table summarising findings of each case study Answering the research question with narrative evidences (quotations)
Gilbert (2005)	The structure of inertia	62 interviews in eight newspaper organisations	<ul style="list-style-type: none"> Semi-structured interviews Archival data Observations 	<ul style="list-style-type: none"> Unit of Analysis: an online venture of a newspaper organisation Interpretive analysis and limited quotations of the interview records 	<ul style="list-style-type: none"> A set of propositions on the relationship between inertia, resource rigidity and routine rigidity 	<ul style="list-style-type: none"> Tables summarising findings of each case study A model of inertia in response to discontinuous change

Author(s)	Focus of the Study	Input / Empirical Basis	Process- Method of Data Collection	Process- Method of Data Analysis	Output / Contribution	Presentation of Findings
Schweizer (2005)	Post-acquisition integration of pharmaceutical and biotech companies	18 interviews in five M&A cases	<ul style="list-style-type: none"> Semi-structured interviews Archival data 	<ul style="list-style-type: none"> Interpretive analysis and limited quotations of the interview records 	<ul style="list-style-type: none"> A set of propositions on the relationship between acquisition motives, integration approaches and value chain activities 	<ul style="list-style-type: none"> Tables summarising findings of each case study A integration framework of post- acquisition
Coviello (2006)	Network dynamics in international new ventures (INVs)	Interviews in three INVs cases in New Zealand	<ul style="list-style-type: none"> In-depth interviews Secondary data 	<ul style="list-style-type: none"> Unit of Analysis: the network defined by the lead entrepreneur Software: UCINET 6 Computing the measures of INVs and their networks Interpretive analysis Pattern matching 	<ul style="list-style-type: none"> A set of propositions on the characteristics of network at different stages Network theory and analysis are fundamental to international entrepreneurship research Combining positivist and interpretative methods 	A common three-stage pattern of structural evolution of INV network (Quantification Strategy)*
Frynas et al. (2006)	The role of political resources in creating first mover advantages (FMAs)	Interviews in three case companies	<ul style="list-style-type: none"> Archival data In-depth interviews Secondary data 	<ul style="list-style-type: none"> Unit of Analysis: individual case company Interpretive analysis and limited quotations of the interview records 	<ul style="list-style-type: none"> A set of propositions on the relationship between political resources and FMAs Interpreting the importance of non-market strategies in sustaining FMAs 	<ul style="list-style-type: none"> Three case studies are presented individually A model of the link between political resources and FMAs (Visual Mapping)
Pratt, Rockmann & Kaufmann (2006)	How professionals construct their professional identities	Interviews with medical residents and faculty members	<ul style="list-style-type: none"> Semi-structured interviews Short surveys Archival data Observations 	<ul style="list-style-type: none"> Generating the theoretical dimensions by grounded theory principles 	<ul style="list-style-type: none"> Investigating how the work-identity integrity affects the construction of identity Exploring the different types of identity customisation and their changes over time 	A model of identity customisation built by work and identity learning cycles (Ground Theory Strategy, Visual Mapping)

Author(s)	Focus of the Study	Input / Empirical Basis	Process- Method of Data Collection	Process- Method of Data Analysis	Output / Contribution	Presentation of Findings
Anand, Gardner & Morris (2007)	The emergence and embedding of innovative knowledge-based structures in organisations	Interviews with partners and staff in four consulting firms	<ul style="list-style-type: none"> • Semi-structured interviews • Archival data • Observations 	<ul style="list-style-type: none"> • Unit of Analysis: creation of a successful new practice area • Interpretive analysis and limited quotations of the interview records 	<ul style="list-style-type: none"> • Identifying the elements constituting a new practice area and • 12 theoretical possibilities of a practice area development • A set of propositions on the interactions between elements which cause the innovative knowledge-based structures 	<ul style="list-style-type: none"> • Graphical displays of how pathways constitute practice area development (Visual Mapping)
Capaldo (2007)	How a leading company sustains its innovation capabilities by a dual network (strong and weak ties)	Interviews in three design-intensive furnishings manufacturers	<ul style="list-style-type: none"> • Archival data • In-depth interviews • Participant observation • Secondary data 	<ul style="list-style-type: none"> • Stage1: unpacking the linkages of strong and weak ties by integrating quantitative and qualitative methods • Stage2: applying qualitative data to enhance the findings in stage 1 	<ul style="list-style-type: none"> • A set of propositions on the impact of strong and weak ties on leading firms' innovative capabilities • Investigating relational capabilities as critical resources in competitive advantages 	<ul style="list-style-type: none"> • Graphical displays of the network relationships across phases (Temporal Bracketing, Visual Mapping)
Hoffmann (2007)	Determinants of configuration and evaluation of an alliance portfolio	Interviews in two business units of Siemens	<ul style="list-style-type: none"> • Archival data • Semi-structured interviews 	<ul style="list-style-type: none"> • Unit of Analysis: event of alliance portfolios • Interpretive analysis • Pattern matching • Plotting the alliance event on the graph 	<ul style="list-style-type: none"> • A set of propositions on the influence of strategic uncertainty and shaping potential on the alliance strategy • Three distinctive types of portfolio strategies • Raising a co-evolutionary model of alliance development 	<ul style="list-style-type: none"> • A typology of alliance portfolio (Visual Mapping)

Author(s)	Focus of the Study	Input / Empirical Basis	Process- Method of Data Collection	Process- Method of Data Analysis	Output / Contribution	Presentation of Findings
Kotabe, Parente & Murray (2007)	Antecedents and outcomes of strategic modularisation	34 interviews in four foreign auto manufacturers investing in Brazil	<ul style="list-style-type: none"> • Semi-structured interviews • Secondary data 	<ul style="list-style-type: none"> • Unit of Analysis: Strategic business unit • Developing individual case studies and comparisons 	<ul style="list-style-type: none"> • A set of propositions on the relationships between market-context factors, firm-specific factors, strategic modularisation and strategic positional advantage 	<ul style="list-style-type: none"> • A table summarising findings of each case study • An integrative framework with links between elements (Ground Theory Strategy, Visual Mapping)
Jarzabkowski (2008)	Pattern of shaping strategy	49 interviews with top managers in three firms	<ul style="list-style-type: none"> • Semi-structured interviews • Archival data • Observations 	<ul style="list-style-type: none"> • Interpretive analysis • Developing individual case studies and comparisons 	<ul style="list-style-type: none"> • A set of propositions on the relationships between the institutionalised level of strategy and action pattern • Identifying the three types of strategising behaviour 	<ul style="list-style-type: none"> • A model of strategising behaviour for shaping strategy (Temporal Bracketing, Visual Mapping)
Orr and Scott (2008)	The evolutionary process of institutional exceptions in cross-cultural contexts	Interviews with 39 managers involved in global projects	<ul style="list-style-type: none"> • In-depth interviews • Secondary data 	<ul style="list-style-type: none"> • Unit of Analysis: organisational subsystem (individual manager with organisational information) • Classifying cases (vignettes) by their actions and related costs resulting from institutional exceptions 	<ul style="list-style-type: none"> • A set of propositions on the evolutionary process of institutional exceptions • Fill the theoretical gap by social process perspective 	A three-phase model of coping with the institutional exceptions (Quantification Strategy, Visual Mapping)

Author(s)	Focus of the Study	Input / Empirical Basis	Process- Method of Data Collection	Process- Method of Data Analysis	Output / Contribution	Presentation of Findings
Grabener (2009)	The role of trust in acquisitions of entrepreneurial firms	Interviews in 12 entrepreneurial firms	<ul style="list-style-type: none"> • Semi-structured interviews • Archival data 	Developing individual case studies and comparisons in a five-stage model	<ul style="list-style-type: none"> • Greater understanding of trust asymmetries between buyers and sellers 	Tables and diagrams summarising findings of each case study (Temporal Bracketing, Visual Mapping)
Ozcan and Eisenhardt (2009)	How firms create high-performing alliance portfolios	92 interviews in six US firms in the gaming industry	<ul style="list-style-type: none"> • Semi-structured interviews • Archival data • Observation 	<ul style="list-style-type: none"> • Developing constructs and themes from cross-case analysis • Refining initial framework by replication logic • Measuring the performances of portfolios and firms 	<ul style="list-style-type: none"> • Identifying the importance of forming multiple-partner ties in making high-performing alliance portfolios • A set of propositions on the inter-organisational relationships of alliance portfolios 	<ul style="list-style-type: none"> • Figures showing the structures of portfolios • Tables and diagrams summarising findings of each case study (Visual Mapping)
Santos and Eisenhardt (2009)	How entrepreneurs shape organisational boundaries and construct markets	46 interviews in five firms across the computing, electronics, and telecom industries	<ul style="list-style-type: none"> • Semi-structured interviews • Archival data 	<ul style="list-style-type: none"> • Developing constructs and themes from cross-case analysis • Refining initial framework by replication logic 	<ul style="list-style-type: none"> • A holistic framework of how enterprises shape organisational boundaries and construct new markets • Reaffirm the importance of power among inter-organisational relationships 	<ul style="list-style-type: none"> • A three-phase model of dominating a nascent market • Tables and diagrams summarising findings of each case study

*According to the classification by Langley (1999)

As presented in figure 3.4, the management research studies that have drawn on a multiple-case study approach can be analysed according to three key dimensions: input, process, and output.

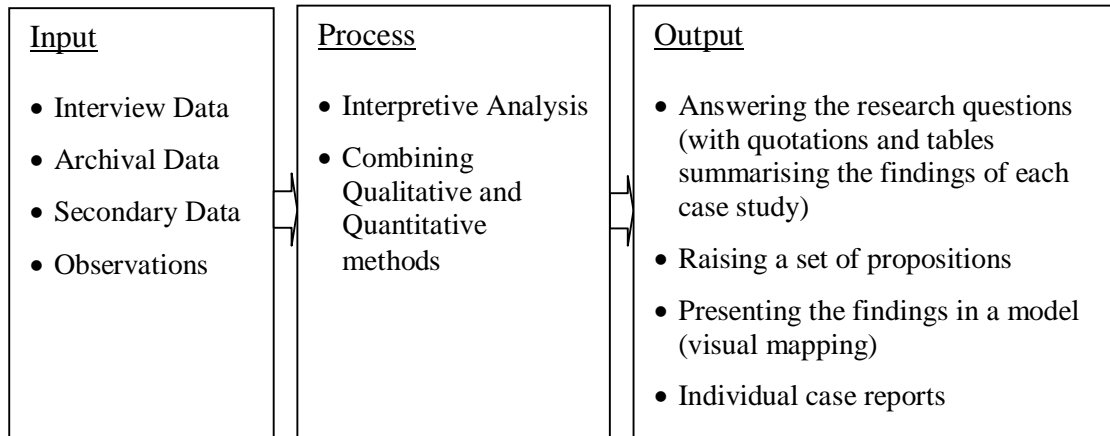


Figure 3.4 Conceptual framework of research adopting multiple-case study method

With regards to the inputs, interview data, archival data, secondary data and observations feature as the main data sources, as commonly seen in qualitative research. However, in these studies, interview data emerges as the primary type of data with the other forms being used as supplementary sources. The purpose of collecting multiple sources of data is to triangulate viewpoints from different informants and facilitate interpretation and regarding this aspect there is no apparent difference between the above publications. Turning to the middle part of the framework, most of the authors of the reviewed studies analysed their data through interpretive analysis, as described in section 3.6. Furthermore, some studies introduced certain quantitative analyses, such as measuring the density of the network structure, in order to support findings generated from undertaking qualitative methods (Coviello, 2006; Orr & Scott, 2008).

The right hand box of figure 3.4 deals with the outputs of multiple-case studies and it emerges that, in general, there are four forms adopted by authors to present their findings. The first involves displaying straightforward findings regarding the research questions with some quotations taken from interview records inserted into the discussion (Ferner, Almond, & Colling, 2005; Schweizer, 2005) along with tables drawn up to summarise the findings of each case study (Ferlie, Fitzgerald, Wood, &

Hawkins, 2005; Gilbert, 2005; Graebner, 2009; Kotabe, Parente, & Murray, 2007; Santos & Eisenhardt, 2009). Not only can the context of a case be briefly presented through the tables, but also researchers can look for theoretical constructs through carrying out cross-case comparisons to generate interpretations (Miles & Huberman, 1994). Secondly, a number of researchers have raised sets of propositions after analysing the data (Capaldo, 2007; Coviello, 2006; Ferner, et al., 2005; Hoffmann, 2007; Jarzabkowski, 2008; Kotabe, et al., 2007; Orr & Scott, 2008; Ozcan & Eisenhardt, 2009), which is consistent with the process of theory-building through case studies proposed by Eisenhardt (1989), whereby the underlying relationships between factors gradually emerge through within and cross-case analysis. The third type of presentation is to use strategies for theorising processed data (Langley, 1999), such as visual mapping and temporal bracketing. The former refers to models created by authors to show the relationships between factors, whilst the latter is applied to data in order to show development stages, usually by means of boxes and arrows. However, there has been very limited research that has applied a grounded theory strategy to generate theoretical dimensions (Pratt, Rockmann, & Kaufmann, 2006). Finally, the fourth type of presentation is the case report, which displays clearly the context of each case (Frynas, Mellahi, & Pigman, 2006) and can provide the readers with complete storylines with unbroken narratives (Eisenhardt & Graebner, 2007). A weakness of this is that although readers are easily engaged in the narrative stories, there is often a lack of theoretical discussion in this type of presentation. In practice, two or more types of presentation were applied simultaneously in the reviewed studies.

3.7.2 The proposed presentation mode

After reviewing the selected research that adopted the multiple-case study approach, this subsection discusses the presentation mode adopted in this study. When the various presentation strategies are placed upon a spectrum ranging from particularity to generality (see figure 3.5), the case report and visual mapping (or hypotheses & propositions) represent the two ends. The former carries the most contextual information of each case study, whilst the latter mainly shows the interrelationships between theoretical constructs. In contrast to these two extremes, tables and charts briefly summarising the findings of the individual cases in relation to commonly identified themes were compiled. Moreover, quotations extracted from interview

records were used to support the research findings as well as providing contextual information.

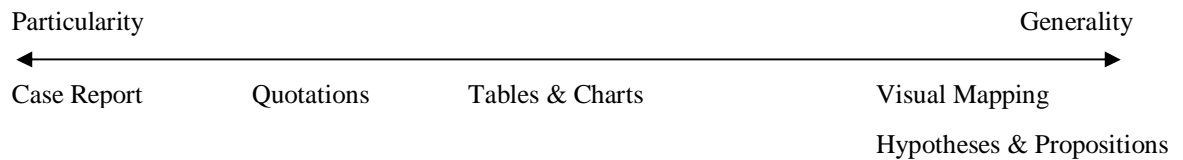


Figure 3.5 Presentation modes used in multiple-case studies

In this study, multiple presentation modes are adopted in a mixed manner so as to achieve a balance between the particularity and generality of case study-based research. Firstly, chapter four which briefly presents histories regarding both case companies together with their tapping into the Chinese market is expected to illustrate contextually the case stories. Similarly, the interview records and secondary data are quoted as supportive empirical evidence to show the contextual information in chapters 5 to 7. By contrast, in chapters 8 and 9, presentation modes at the generality end, such as visual mapping techniques (Langley, 1999), are adopted to present the linkages between the theoretical constructs and the propositions raised. In addition, tables and charts are used to display the subtle differences in strategies employed by the case companies, which help facilitate subsequent cross-case comparisons. By carrying out these modes of presentation, a common pattern regarding subsidiary transformation is expected to be generalised from the case studies, whilst retaining the specific contexts of each (Miles & Huberman, 1994).

Chapter summary

This chapter has covered methodological issues, ranging from the philosophical assumptions to the mode adopted for the presentation of the findings. Considering the

interpretive nature of this study, the case study approach was suitable for exploring the dynamic relationships between the units of analysis. Moreover, in contrast to the single-case study approach where the research concern is that case's idiosyncratic path, a multiple-case study was adopted so as to achieve generalisable findings. Furthermore, the records transcribed from semi-structured interviews and secondary data are the two main sources of data. Through an iterative process moving between data collection, data analysis and the literature review, the common features of case companies' trajectory during transformation were captured. Meanwhile, charts, tables, and visual mapping strategies were used to provide richer contextual information of the case companies.

Chapter 4 Overview of the two case companies

4.1 Introduction

In this chapter a brief history of the two case companies and the transformation pathway of their subsidiaries in China are presented. This information serves to provide the contextual background for the data analysis and discussion in the following chapters. Following the preliminary conceptualisation framework indicated in the end of chapter 2, section 4.2 and 4.3 explain how Alpha and Beta dealt with resource reconfiguration, inter-firm relations with distributors and headquarters-subsidiary relationships, respectively. Lastly, section 4.4 contains a holistic perspective on the transformation in the two case companies.

4.2 Case Alpha

4.2.1 Brief history of company Alpha

Founded in 1984, Alpha is one of the leading companies in the Taiwanese electronics sector. Starting from manufacturing computer peripherals, it extended its range of products to the display field, including: monitors, projectors, digital cameras and LCD televisions. In 2001, it started to operate a branding business with its newly-launched own brand. However, specialising in manufacturing information technology (IT) products, the company continued to function as a key contract manufacturer for global brand marketers until 2006. That is, it operated the contract manufacturing and branding businesses simultaneously for about six years. In 2006, Alpha transformed itself into a pure branding company and handed over the manufacturing business to another related company in the same business group.

Facing rapidly rising production costs in Taiwan, Alpha conducted its first foreign direct investment (FDI) in Penang, Malaysia in 1989, which was positioned as an overseas production site. The action of shifting the manufacturing capacities to Malaysia enabled the company to continue its contract manufacturing relations with its clients. However, it soon encountered surging production costs again, owing to the

shortage of labour supply in Malaysia. In 1993, it invested in Suzhou (approximately 100 kilometres west of Shanghai) as its second overseas site (A-SUB). In order to set up the manufacturing capacities effectively, some engineers were expatriated from the Malaysian subsidiary to Suzhou to provide technical support. Moreover, several first-tier suppliers of Alpha were invited to invest in the neighbouring area close to A-SUB, so as to ensure the supply quality of key components. Subsequently, the assembly lines of low-margin products, such as keyboards, were shifted from the Malaysian subsidiary to A-SUB. Next, Alpha set up its third and fourth overseas production sites in Mexico and the Czech Republic, for assembling products to export to the American and European markets, respectively.

In relation to the branding business, even though Alpha did not launch its own brand until 2001, it actually accumulated experience in branding from the middle of the 1990s onwards. By selling the products carrying the business group's brand in foreign countries, it extended its operations from its original focus on manufacturing to the marketing field. In China, in order to infiltrate into the second- or third-tier city markets, A-SUB built up direct contacts with distributors across the country. In December 2001, Alpha launched its own brand in Taipei and Suzhou, simultaneously, which reaffirmed the importance of the Chinese market in its global operations. Afterwards, A-SUB transformed the distribution system to promote the products carrying its newly-built brand.

As to financial performance, for A-SUB, the sales contributed from the contract manufacturing and branding business in 2000 were 3.5 billion Renminbi (RMB) and 1.4 billion RMB⁸, respectively. In 2005, the sales of the latter in China increased to 3.5 billion RMB⁹. Several product items of Alpha have achieved a great presence in the Chinese market. For instance, it has been the number one brand in the projector market since 2009 and its LCD monitors are also represented in the top three brands. Further, according to figures released on Alpha's website, its global sales reached approximately US\$1.83 billion in 2007, over 30% of which was generated from the Chinese market. Looking for products with growth potential, it recently invested in potentially remunerative fields, including medical equipment and lighting.

⁸ Equivalent to US\$422.8 million and US\$169.1 million according to the average currency rate in 2000.

⁹ Equivalent to US\$427.3 million according to the average currency rate in 2005.

4.2.2 Reconfiguring the resource base of the subsidiary in China

A-SUB was initially set up as a production plant for assembling products for Alpha's key clients under the contract manufacturing business model. Consequently, most of its historical resources were manufacturing-driven, similar to other subsidiaries of Alpha in Malaysia and Mexico. In order to become a host market-seeking oriented business, A-SUB built up its marketing department (A-SUB-MKT)¹⁰ in 1997 and given the lack of marketing staff, five managers were shifted from the manufacturing department to operate it (*Book 1*, p.151)¹¹. During the first few years after A-SUB-MKT was established, it managed the after-service business for Alpha's key clients in the Chinese market, such as Hewlett Packard. Starting from Guangzhou city and Guangdong province, A-SUB-MKT gradually set up connections with distributors in provinces and big cities around China. Eventually, in order to explore further the market opportunities in China, A-SUB-MKT was upgraded to "marketing headquarter of the Chinese market" in 2000. After launching its own brand in 2001, Alpha reorganised its distribution system for promoting its own products in the Chinese market.

Meanwhile, the manufacturing department of A-SUB has constantly manufactured products for clients in the export market. By making a slight differentiation between the specifications of products for export and the host market business, the sceptical attitudes of clients towards A-SUB operating with its own brand were dispelled. Moreover, given that the marketing and manufacturing departments of A-SUB reported to different units of A-HQ, there were quite limited linkages between the two departments. In consequence, two types of business- export-oriented and host market-seeking oriented business- operated simultaneously.

4.2.3 Building up the inter-firm relations with distributors

With regards to the building up of distribution systems in the Chinese market, A-SUB has had direct contact with distributors managing each market area. Different from

¹⁰ In this study, A-SUB-MKT is only used to emphasize the marketing function of A-SUB, in contrast to manufacturing and R&D.

¹¹ This book was published in January 2003 and was written by a Chinese journalist based on in-depth interviews with the top management team of A-SUB and in order to protect anonymity, the title and details of it are not provided in this thesis.

other global brand marketers operating business in China, which largely rely on incumbent distributors at national level (e.g. Ingram Micro or Digital China) to infiltrate into the host market, it has played the role of chief distributor itself. According to the interviews undertaken with the marketing manager in 2006, A-SUB was directly managing about 700 distributors covering 250 city-level market areas. These 250, so-called, "first-tier distributors" also manage the "second-tier distributors", who operate the subordinated market areas, such as lower-tier city or town markets. This hierarchical structure of distribution system has enabled A-SUB to explore the market areas in substantial depth.

The main consideration for A-SUB is to ensure that its products are effectively promoted on the market. Given that national-level distributors normally handle several brands at the same time, the brand marketers holding weak brand strengths worry that it is difficult to compete effectively for resources with leading brands. Therefore, although national-level distributors are able to deal with the problems for brand marketers, such as managing the financial accounts, A-SUB has kept its direct connections with its distributors. In addition, it has provided financial incentives and supportive resources, e.g. training materials, for distributors in order to strengthen its relations with them. Moreover, A-SUB and the distributors jointly set the product portfolio of each market area and annually held meetings by the former are an important platform for introducing the latest products to distributors. Apart from regular meetings, the sales managers also provide procurement advice to distributors by means of frequent visits. By contrast, as the bridge linking A-SUB and the consumers, the distributors give consumer feedback to A-SUB so as to get the product development closer to the market demand.

With the growing inter-firm relations with the distributors, the related managerial functions of A-SUB became equipped to support the host market business. The subsidiary insisted that products ordered by distributors had to be paid for prior to delivery and so it set up a nationwide logistics system to ensure timely delivery of its products. In practice, A-SUB guarantees that its products are delivered to the distributors' warehouses within 48 hours after it receives payment. Moreover, the information systems set up by A-SUB linking key distributors have enabled it to remain strongly cognisant of the market dynamics. However, the nature of A-SUB's

inter-firm relations with the distributors has not remained intact. With its growing brand strength, it began to hold more bargaining power for insisting that the distributors follow its strategies for approaching consumers, e.g. further exploring the lower-tier city or town markets.

4.2.4 Headquarters-subsidary relationships

As indicated before, the different departments of A-SUB have reported to their respective units at A-HQ. For instance, the R&D department of A-SUB has been instructed by the R&D centre at A-HQ. In doing so, although the different departments of A-SUB are located in the same place, Suzhou, the horizontal linkages between them are limited. Therefore, if A-SUB-MKT requires technical support, it has to contact Product Managers (PMs) at A-HQ first, and then indirectly get the R&D resources. In practice, through communicating by multiple-level PMs in A-HQ and A-SUB, A-SUB-MKT reports feedback regarding demand in the host market to A-HQ and requests support in product development or other managerial functions.

At A-HQ, each product item is managed by one Business Unit (BU), which is further subordinated to a higher organisational unit, the Business Division. In addition, the Technology Product Centre is in charge of all business divisions, whose head is the chief director setting the product strategies of Alpha. This organisational structure also reflects the headquarters-centric feature of headquarters-subsidary relationships in the case of Alpha. After collecting feedback on products from the regional markets¹², A-HQ formulates the future plans regarding them. However, given that the product development process was handled by A-HQ, gaps arose between the products launched by the global-oriented A-HQ and the demand of the regional markets. In order to address these, some powers were conferred on A-SUB in relation to launching local-oriented products and sourcing suppliers in China. In 2011, Alpha established its first subsidiary-level 'Technology Product Centre' in A-SUB, which is expected to shorten the internal communication process so as to have a timely response to demand in the host market. Apart from product development, A-HQ also sets the price range of products for the subsidiaries which promote them. That is, they

¹² The regional market here refers to one market area covering countries, such as the European or Latin American markets.

calculate the production cost with related expenses and subsequently set the reference prices for A-SUB to sell products in the Chinese market.

4.3 Case Beta

4.3.1 Brief history of company Beta

Founded in 1978, Beta started its business as an electronic fan manufacturer for foreign clients, which mostly were American brand marketers. After adding heaters as another main product in the 1990s, it became one of the leading suppliers in seasonal electronic appliances around the world and in order further to diversify its range of products Beta launched kitchenware series in 2009.

Faced declining profits caused by severe competition together with rising value of the Taiwanese currency at the end of 1980s, Beta diversified its client portfolio by adding European marketers. Soon after, it set up its subsidiary (B-SUB) in Shenzhen (near Hong Kong) in 1991 by investing 23.7 million US dollars. Utilising a labour force with relatively low cost in China, B-SUB initially manufactured products following instructions from B-HQ. After being equipped with R&D, testing and industrial design capabilities through further investment by B-HQ, B-SUB had developed nearly all managerial functions by the mid 1990s. Obtaining orders from tough Japanese clients, such as Sanyo, was a typical instance regarding its manufacturing efficiency and quality of product. Parallel to the export business, it has operated in the host market business in China since 1993, with a newly-launched brand at that time. Initially, it tested local market response by selling excess products originally made for exporting. Before 2005, B-SUB's sales in China had been unstable given that it was not familiar with the local distribution sector. In 2003, its sales in the Chinese market achieved only 0.3 billion RMB¹³, which was equivalent to 33% of its total sales that year, whereas in recent years this has come to represent nearly half of its total. More specifically, in 2011, the percentage of sales in the China and non-China (export) markets were 48% to 52%, respectively, of total sales of 2.8

¹³ Equivalent to US\$36.3 million according to the average currency rate in 2003.

billion RMB¹⁴. By region, Japan/Korea is the most important for Beta's export business, making 28% of its global sales in 2011, followed by the US/Europe market at 20%.

The latest development is that, in 2010, B-HQ started to promote the products which are developed and manufactured by B-SUB in the Taiwanese market. That is, it is assessing the responses of Taiwanese consumers towards the popular products in the Chinese market. In addition, applying to be listed on the Taiwanese Stock Market is another major plan, which could be realised in 2012 or at least a short time after. Therefore, Taiwan, the home country of Beta is performing new roles in marketing and fundraising matters.

4.3.2 Reconfiguring the resource base of the subsidiary in China

In the first few years after B-SUB was established in Shenzhen, it relied on B-HQ to provide materials and components for assembling products. All products manufactured were then exported to clients in foreign countries. Given that Taiwan was no longer suitable for operating export-oriented business by the end of the 1980s owing to the surging product costs, Beta reinvested in B-SUB so as to retain its contract manufacturing business. After gradually being equipped with co-specialised managerial resources to complement its manufacturing, i.e. R&D, testing and industrial design, B-SUB developed more like an autonomous subsidiary. In order to tap into the Chinese market, a four-person marketing team was set up in 1993 for managing the host market business in China, which was afterwards upgraded to a marketing headquarter of the Chinese market. In general, B-SUB has operated both types of contract manufacturing and branding business simultaneously, or what was dubbed a 'Balanced Strategy' by informant B01.

As indicated before, by selling the products carrying its own brand in China only, B-SUB's relations with foreign clients have not been affected. However, within its organisation, the export and host market business departments inevitably competed for manufacturing resources, particularly during the peak months of production. Consequently, given that the host market business is handled by itself, B-SUB

¹⁴ Equivalent to US\$ 433.5 million according to the average currency rate in 2011.

arranges the production for the host market business earlier than that for the export department, so as to address the tension in scheduling production plans. Moreover, B-SUB also provides financial incentives to encourage distributors to place or pay their orders before the due dates, which helps it to be able to more reasonably allocate resources between the two types of businesses.

4.3.3 Building up the inter-firm relations with distributors

Similar to A-SUB, B-SUB has functioned as the chief distributor itself in the Chinese market. It managed about 300 distributors dispersed throughout provinces and cities at the time of interview, in 2010. Through this network of distributors totally controlling over 10,000 sale points, it is able to keep abreast of the ever-changing Chinese market.

With regard to the governance mechanisms adopted by B-SUB towards the distributors, it provides financial incentives with supportive resources to strengthen its inter-firm relations with them. Moreover, through frequent visits by sales managers, it also collects consumer feedback regarding products, which assists it in deciding on the future direction of product development. Apart from daily contact, B-SUB holds annual meetings with distributors so as to launch the products for the following sales season. At the meetings, after reviewing the latest products, distributors place orders according to the demand of each market area and hence, B-SUB is able to estimate the volume and then arrange the production schedule. Unlike the export business, which has involved completely following the requests from clients, the department of marketing has handled the whole process for operating in the host market in China, i.e. from product development to manufacturing, delivery and after-sale services. In other words, the marketing department has linked all the related managerial resources so as to be able to operate effectively in the Chinese market. Meanwhile, the inter-firm relations with distributors have been supported by the information systems and logistics services, which are relatively less invested in for the export business.

At the inception of penetrating into the Chinese market, B-SUB relied greatly on the distributors to explore markets and given the relatively limited bargaining powers in relation to them, its accessibility to the market was determined by whether it approached suitable ones. With growing brand strength, it started to insist that its distributors explore further the untapped markets in depth and this process also led to

the changes in its distribution system in China. That is, B-SUB actively terminated its corporation with some distributors, because they were not capable of executing its strategies.

4.3.4 Headquarters-subsidiary relationships

Being positioned as an overseas production site, B-SUB completely followed the instructions of B-HQ to assemble products in the first few years after it was established. Afterwards, in order to diversify its range of clients to non-American brand marketers, Beta invested in equipping B-SUB with R&D, testing and industrial design capabilities so as to fulfil the requirements of the clients on products. Accordingly, after investing in B-SUB and turning it into a subsidiary holding all managerial functions, the resources transferred from B-HQ to B-SUB became very limited. For B-HQ, the client service-related functions, such as receiving orders, contacting clients, and managing trade affairs were gradually shifted to B-SUB, along with the moving of manufacturing activities. Subsequently, in order to address the idle manufacturing capacities at B-HQ, it assembled products for local electronic appliance marketers. In 2010, B-HQ also started to sell the products designed and manufactured by B-SUB in the Taiwanese market. Therefore, it can be observed that the resources are now flowing in a reverse direction in the form of product, with B-HQ functioning as B-SUB's chief distributor in the Taiwanese market.

Regarding the financial linkage between B-HQ and B-SUB, the ownership ties between them were broken in 2000 in order to apply for listing on the Hong Kong Stock Exchange (HKEX). However, because B-SUB's performance would probably not be able to meet the strict requirements of the HKEX, it plans instead to apply for listing on the Taiwan Stock Exchange (TWSE) in 2012 or soon after. From this it can be seen that fundraising in its home country is seen as an important new function of B-SUB.

4.4 A holistic perspective of the transformation process in the two case companies' subsidiaries in China

This chapter has provided an overview of two case companies' trajectory of subsidiary transformation as it occurred in China. Possessing similar backgrounds as contract manufacturers for foreign clients in electronics sector, Alpha and Beta hold manufacturing-driven historical resources. Being positioned as overseas production sites with the historical resources transferred from their headquarters, A-SUB and B-SUB initially assembled products for export. In order to seize the growing business opportunities in China, both case subsidiaries reconfigured their resource bases to have a host market-seeking orientation. Starting from exploiting their historical resources so as to operate in the host market, A-SUB and B-SUB gradually set up new marketing departments in charge of it. Moreover, it was observed that the two case subsidiaries have managed export-oriented and host market-oriented business at the same time, together with effectively addressing the conflict between the two types of business.

Outside the boundaries of the subsidiary organisations, both established their distribution systems by searching for a few distributors exclusively to manage an appointed market area. Moreover, both case subsidiaries provided financial incentives and supportive resources in order to strengthen their relations with distributors. By means of holding regular meetings with the distributors and daily visits, the case subsidiaries not only get involved in the process of setting the product portfolio of each market area, but also remain keenly aware of the nature of the market demand through the feedback provided by the distributors. With the growing brand strengths and direct contact with consumers, it emerged that A-SUB and B-SUB have gradually come to dominate their relations with distributors, which means that they hold greater bargaining powers for getting the distributors to explore further the lower-tier city or town markets, rather than unilaterally relying on them to promote their products.

Lastly, two distinctive patterns of headquarters-subsidiary relationships have emerged for the two case companies. For Alpha, it faced the traditional conflict between global integration and local responsiveness. Given that A-HQ largely held the complementary resources to the marketing activities, such as R&D and product development, A-SUB managers had to contact corresponding departments at

headquarters to acquire the required resources. However, in order to address the gap between globally-oriented product development and meeting the demand in the host market, A-SUB was allowed to launch products specifically for the Chinese market and source local suppliers. By contrast, after shifting its manufacturing capacities to B-SUB, B-HQ equipped it with the necessary complementary resources. That is, recognising its lack of resources for penetrating into the Chinese market, B-HQ strengthened the managerial functions of B-SUB by means of reinvestment. Moreover, B-HQ has sold the products designed and manufactured by B-SUB in Taiwan since 2010, which is rare evidence regarding reverse resource transfer from subsidiary to headquarters.

The key events with respect to the development of A-SUB and B-SUB indicated above are displayed in figures 4.1 and 4.2 as temporal sequences.

Marketing Department	(1993) Invested in Suzhou		(1997) Set up the “Marketing department of the Chinese market”	(1998) Upgraded the department of marketing to “marketing headquarter of the Chinese market”	(2000) Contacted the first distributor in Guangzhou	(2001) Launched its own brand	
Non-marketing Departments	(1994) Rented factories for assembling products	(1996) Moved assembly lines in the factory					(2011) Established subsidiary-level “Technology Product Centre” at A-SUB
Core Products			Keyboard	CD-ROM	Monitor / Projector / Digital Camera / Laptop / PC		

Figure 4.1 Key events of A-SUB’s development in China

Marketing Department	(1991) B-SUB was set up in Shenzhen	(1993) Registered as a company able to carry out domestic marketing / Launched own brand / Set up a four-person marketing team	(1997) Set up "Marketing department of the Chinese market"	(2001) Upgraded the department of marketing to "marketing headquarter of the Chinese market"	(2002) About thirty key distributors	(2006) Started getting profits from sales in the Chinese market	(2007) Set up provincial branches by joint venture projects with key distributors	(2008) Started to cooperate with local advertisement companies (2008) About sixty key distributors
			(1997) Ten key distributors in nine provinces and one city					
Non-marketing Departments			(1996) Set up "Department of Industrial Design"	(1998) Shifted the core R&D centre from B-HQ to B-SUB		(2003) Introduced "Enterprise Resource Planning (ERP)" system	(2007) Set up "Testing Centre for Small Home Appliances"	(2009) Set up R&D centre for kitchen ware products
							(2007) Implemented "Standard Operation Procedures (SOP)"	
Core Products			Electronic Fans (1991)	Heaters (1990s)	Kitchenware (2009)			

Figure 4.2 Key events of B-SUB's development in China

Chapter summary

Following the three aspects of the investigation set out in the previous chapters, the aim of this chapter has been to present briefly the resource reconfiguration process pertaining to the subsidiary transformation of the two case companies. Moreover, how Alpha and Beta have managed the inter-firm relations with distributors and headquarters-subsidiary relationships have also been covered in this chapter. Grounded in the descriptive evidence shown here, the following three chapters contain detailed evidence of the organisational initiatives adopted by the case companies covering each aspect of interest for this research.

Chapter 5 Reconfiguring the resource bases of subsidiaries for a host market-seeking transformation

5.1 Introduction

As indicated in chapter 2, the conceptualisation framework of this study encompasses three aspects: resource bases of subsidiary organisations, inter-firm relations with external actors (particularly distributors) in the host environment, and headquarters-subsidiary relationships. The two case companies' experiences associated with each aspect will be investigated in chapters 5 to 7. In this chapter, following the definition by Amit and Schoemaker (1993) regarding organisational resources and capabilities, the organisational initiatives adopted by the case subsidiaries to cope with the host market-oriented transformation are investigated.

Furthermore, following the analytical structure proposed by the extant research on resource reconfiguration conducted by MNEs facing volatile environments in the transition or emerging economies (Luo, 2002; Meyer & Lieb-Dóczy, 2003), the subsidiaries' resources and capabilities were further categorised as two types, (1) historical (or existing) resources and capabilities and (2) newly-acquired resources and newly-developed capabilities. The former means the existing resources and capabilities utilised for the contract manufacturing (export-oriented) business, while the latter denotes the new ones acquired or developed for operating the host market in China.

Given the features of existing and newly-developed resources / capabilities, in this chapter a pair of concepts used in global strategic management studies- capability (or resource) leverage and capability (or resource) building (Luo, 2002; Tallman, 2001, 2009) are adopted to represent the responsive actions of the case subsidiaries. Through exerting leverage, companies exploit the value of existing resources and capabilities to the new field of business without investing in any new ones (Danneels, 2007). In the context of subsidiaries of MNEs, capability (or resource) leverage means that they extensively operate new businesses by continuously exploiting existing organisational capabilities (or resources) without acquiring any new ones. Alternatively, subsidiaries adopt capability (or resource) building when they decide to

operate in a new business arena, which requires acquiring new resources or developing new capabilities so as to manage the business distinctively different from as they have done.

Having explored the strategies of MNEs with distinctive market orientation in the context of investing in China, Luo (2002) suggested that those firms that focus on the local market are more likely to adopt capability (or resources) leverage and building than those that primarily operate in the export market. However, the essence of resource reconfiguration in the context of host market-seeking orientation has not been completely studied, particularly in relation the subsidiaries of EMNEs tapping into a host market after having operated an export-oriented business model. Hence, this chapter aims to unveil how the resource bases of the case subsidiaries have been aligned with the host market orientation during the after-entry period.

This chapter is organised as follows. Section 5.2 investigates how the case subsidiaries upgraded their manufacturing and related resources / capabilities so as to get orders from additional clients. Section 5.3 explores how the historical resources / capabilities of the case subsidiaries functioned when they started operating the host market in China. Being contract manufacturers for global brand marketers, the historical resources and capabilities of both case companies are grounded in the interests of their key clients and therefore, how the subsidiaries exploited the value of the contract manufacturing-based resources and capabilities is the focus of this section. Section 5.4 describes how A-SUB and B-SUB addressed their resource deficiency in local marketing competences by setting up marketing departments together with adjusting the business processes. Apart from adopting initiatives regarding capability (or resources) leverage and capability (or resources) building, A-SUB and B-SUB inevitably faced tensions in resource deployment, which were caused by the simultaneous operation of export-oriented and host market oriented business. For instance, these two types of business competed for the limited manufacturing capacities during the peak months. Section 5.5 explores how the case subsidiaries coped with these tensions by exerting their coordination capability. This is followed by the concluding remarks, discussion and propositions raised from the findings in section 5.6.

5.2 Upgrading the manufacturing and related resources / capabilities so as to get orders from additional clients

Before extensively exploring the host market in China, it is observed that the case subsidiaries upgraded their resources and capabilities, which resulted in them acquiring orders from additional clients. This has been achieved by measures being taken to strengthen the quality of product and expanding the production capacities in China.

Alpha, it established its first overseas production site in Penang, Malaysia at the end of 1980s, followed by a second site set up in Suzhou, China (A-SUB) in 1993. With the increasing production cost in Penang, it shifted the assembly lines of products with low margins, such as keyboards and CRT Monitors, to A-SUB. Later on, given its efficient manufacturing with high quality of products, A-SUB was able to get additional orders by itself, and even took over some that were managed by A-HQ, or other subsidiaries. One typical example is A-SUB receiving the outsourcing orders of CD-ROMs of Lenovo, which were previously handled by A-HQ. The main reason for Lenovo's changing subcontractors is that A-SUB was capable of providing a higher quality of product with after-sale services (*Book 1*, p.152). One passage quoted from *Book 1* about Alpha's investment in China shows how the management team of A-SUB devoted themselves to improving the quality of product.

Although we thought the quality of our product was nearly perfect, foreign clients might not be satisfied with what we manufactured. Therefore, we had to compete with worldwide rivals which are making the same products. Moreover, the quality of the products manufactured by us also had to exceed that of goods made by our counterpart in Malaysia. (*Book 1*, p.162)

By the end of 1990s, the great reputation for quality of product and service provided by A-SUB enabled it to approach local personal computer makers in China. At the same time, A-SUB also became the provider of after-sale services for leading PC marketers, such as HP, in the Chinese market (*Book 1*, p.153).

With respect to Beta, B-SUB registered as a company which was entitled to operate in the host market business in China¹⁵ in 1993. During the first few years after obtaining this status, it promoted popular products of its export market in the Chinese market and then assessed the responses of local consumers. In the mid 1990s, so as to acquire contract manufacturing orders from Japanese brand marketers, such as Sanyo, it increased its manufacturing capacities together with an improved quality of product. After repeatedly being reviewed by the Japanese clients, B-SUB eventually got approval of its quality of product and thus was able to commence providing contract manufacturing for these companies. Facilitated by the process of upgrading manufacturing efficiency, B-SUB subsequently successfully accessed the host market in China, in particular because of the renown for its rigorous quality of product (*Newsletter*, 56, 2009).

Although we have been a contract manufacturer for our Japanese clients since the middle of the 1990s, their tough requirements over quality of product has never changed. This insistence on quality of product was integrated into our company culture and then beneficial for our expanding business, including operating in the Chinese market. (informant B06)

Similar to most of electronic fan makers relocating their manufacturing capacities from Taiwan to the Southern China, B-SUB assembled products for clients in the US and Europe after it was established in 1989. However, a massive change in the US and European markets in 1997 further pushed B-SUB into adjusting the proportional distribution of its clients. This was because in that year, most of the electronic fan manufacturers expanded their production capacities owing to the successive abnormally hot summers in preceding years. However, unexpectedly, the weather in 1997 was much cooler than average in Europe and a sharp decrease in demand resulted in high inventory for all electronic fan manufacturers. The loss caused by the plummeting price of fans in the market further impacted badly for them. Fortunately, supported by its diversified business in Japan and China, B-SUB was able to avoid the loss caused by this oversupply in the US and European markets (*Newsletter*, 56, 2009).

¹⁵ In China, MNEs have to get permission from the administrative agencies responsible for foreign investment, if they want to operate their business differently to what they registered it as at the outset of their entry.

In sum, one key similarity from the two case subsidiaries' trajectories before their tapping into the host market in China can be observed. That is, beyond the orders initially allocated by headquarters, upgrading their historical contract manufacturing-based resources and capabilities enabled them to obtain additional orders from new clients. Through broadening the range of clients with higher requirements in quality of product they became leading manufacturers in their sector. For B-SUB, the newly acquired Japanese clients also helped it to accommodate for the volatile demand of the US and European markets.

5.3 Capability (or resource) leverage

5.3.1 Exploiting the historical resources / capabilities to develop the new host market-seeking business

In this subsection, how the historical contract manufacturing-based resources (and capabilities) of the case subsidiaries were exploited to support the host market-seeking business is explored. Moreover, the investigation on organisational initiatives follows the definition by Amit and Schoemaker (1993) on resources and capabilities, which refer to 'stocks of available factors that owned or controlled by the firm' and 'a firm's capacity to deploy its resources, usually in combination, using organizational processes, to effect a desired end' (Amit & Schoemaker, 1993, p.35), respectively. Hence, given that the organisational processes of case subsidiaries when deploying their resources were apparently not changed during the initial stages of subsidiary transformation, it is contended that A-SUB and B-SUB mainly exploited their historical 'resources' to develop host market business, rather than their 'capabilities'.

At first, 'resource leverage' was undertaken by the case subsidiaries in several ways involving both products and human resources. For A-SUB, it started to tap into the Chinese market in 1997, by means of selling products labelled with the brand of its business group. That is, not developing specific products for the local market meant that the items promoted in China were the same as those for the export market with only subtle changes in product specifications. Turning to human resources, the first five managers of A-SUB's newly-established marketing department came from the manufacturing department (*Book 1*, p.151). Similarly, in order to test the Chinese

market, B-SUB selected some product items from those originally for export and then promoted them in the host market.

We selected the product items originally exported to Japan and then promoted them in the Chinese market. These items were positioned at the middle to high end market in China. In this sense, we applied the technologies originally for products for the export market to the Chinese market. At the same time, the sales in China have been supported by the profits generated from the export business. (*Newsletter*, 56, 2009)

Today we are operating export and domestic business using different teams, but at first we had to leverage resources from the former in order to be able to explore the host market. It is reckless to make a massive investment for tapping into an uncertain market. (informant B02)

In addition, because of lack of brand strength among distributors at the inception of its operation in China, A-SUB increased their level of trust in its manufacturing capacities by showing them its assembly lines that manufactured products for worldwide brand marketers (*Book 2*, p.123)¹⁶. That is, the historical resources were employed to deliver manufacturing efficiency and were subsequently further exploited to build up the relations with the distributors. Thus it can be seen that conducting resource leverage or redeploying the historical resources to the new business field, was the initiative first taken by the two case subsidiaries when they started to operate in the host market in China. Moreover, regarding financial matters, the relatively stable profits generated from the export business also supported the case subsidiaries operating the Chinese market.

We poured the profit garnered from our export business to support the marketing activities in China. In addition, we applied the advanced technologies which were originally for the export business to the domestic market. Meanwhile, we also adopted strict criteria to check the products put on the Chinese market, the same as what we do for those exported to overseas markets. (*Newsletter*¹⁷, 56, 2009)

¹⁶ Published in 2003, this book mainly focuses on the founder of Alpha. The author illustrates the personality features of the founder obtained from interviews carried out with several managers of Alpha and so as to protect anonymity, the title and details of this book are concealed in this document.

¹⁷ The newsletter quarterly issued by B-SUB since 1994.

5.3.2 Addressing the scepticism from foreign clients

Being major contract manufacturers for global marketers, Alpha and Beta faced scepticism from foreign clients over their tapping into the Chinese market. That is, the foreign clients were worried that the case companies would take the ideas of product design to develop their own branding business, and then compete with them in China. So in order to address this tension, A-SUB and B-SUB employed differentiation strategies regarding product specification and geography.

A-SUB differentiated the specifications of products for the contract manufacturing and branding business. In other words, the specifications for the products manufactured for the brand marketers were not entirely the same as those carrying Alpha's own brand, with those for the former being much more standard than for the latter. Moreover, benefiting from the shared resources in R&D and assembly capacities, balanced growth between the contract manufacturing and branding business achieved economies of scale. Hence, A-SUB not only maintained its cooperation ties with its key clients, but also supported the growth of its not yet fully fledged brand.

Different from the storage devices (such as DVD-players) carrying our own brand, which have been individually sold on the market, those under the contract manufacturing model have been put inside other marketers' computers. Given this feature, tension between the contract manufacturing and branding business has not been apparent in the case of our company. By contrast, our clients' promotion of their computers is in favour of our reputation in high quality storage devices, such as 'Alpha's DVD-players inside'. (informant A01)

We used different codes to separate the products carrying our own brand from those with foreign clients' brands. Besides, the specifications of the products were subtly changed to avoid direct competition. (informant A02, A05)

Similarly, B-SUB faced the risk of shifting orders by its key clients when it embarked on the branding business in China. To address the possible risks, it conducted a differentiation strategy by market area. That is, the products carrying its own brand have been sold in the Chinese market only, while the products it has manufactured for its clients are exclusively sold outside of China. This separation has

successfully eliminated the doubts of its key buyers about the potential competition between B-SUB and them. Meanwhile, benefiting from the economies of scale resulting from employing a balanced strategy, B-SUB has extensively been able to apply its self-developed technologies to products targeted at either the export or domestic markets.

In sum, given that the scepticism of clients regarding unintended spill-over (Santangelo, 2012) to A-SUB and B-SUB was adequately addressed, the historical contract manufacturing-based resources were extensively exploited to support the development of the new business. That is, at the inception of exploring the Chinese market, both case subsidiaries leveraged the product, staff and other existing resources for operating in the host market, without investing in any new specialised assets.

5.4 Capability (or resource) building

Although the historical contract manufacturing-based resources and capabilities were upgraded and continually exploited for supporting the host market-seeking business, the challenge of resource deficiency in relation to local marketing competences remained. Defined as 'the abilities to recognise and exploit local market opportunities' (Wu et al., 2007, p.268), having local marketing competences was critical for the case subsidiaries to tap into the Chinese market successfully. The organisational initiatives conducted by them included setting up new marketing departments and adjusting their business processes.

5.4.1 Building up a marketing team with an adjusted organisational structure

Given the distinctive business model, export-oriented and host market-seeking MNEs manage their relations with customers (or clients for the former) in different ways. That is, unlike export-oriented MNEs in which the staff in the export departments mainly take charge of contacting clients, host market-seeking MNEs have to tackle the highly complex task of dealing with the distributors. Therefore, with their having limited direct contact with customers, export-oriented MNEs need to adjust their

organisational structures when they transform their market orientation from export to the host country.

In the following subsections, marketing resources and capabilities refer to different organisational initiatives. The former denotes the marketing-related human resources, such as setting up a marketing department in charge of operating in the Chinese market, while the latter means the adjustments in organisational structures and business processes. Regarding the marketing resources, A-SUB, after shifting five managers from the manufacturing department to the newly-established marketing department in 1997, it expanded its marketing department by recruiting graduates from local universities.

In contrast to the marketing resources, which are related to recruiting new marketing staff, the building of marketing capability has mainly been reflected in the changes in organisational structure and business process. For instance, given that A-SUB's marketing department extensively managed the after-service for their clients in the Chinese market, such as Compaq, the process of capability building was grounded in the interactions with the distributors. Through contacting distributors who were in charge of selling its brand marketers' products in the provinces and cities, A-SUB got access to the host market in China (as shown as figure 5.1).

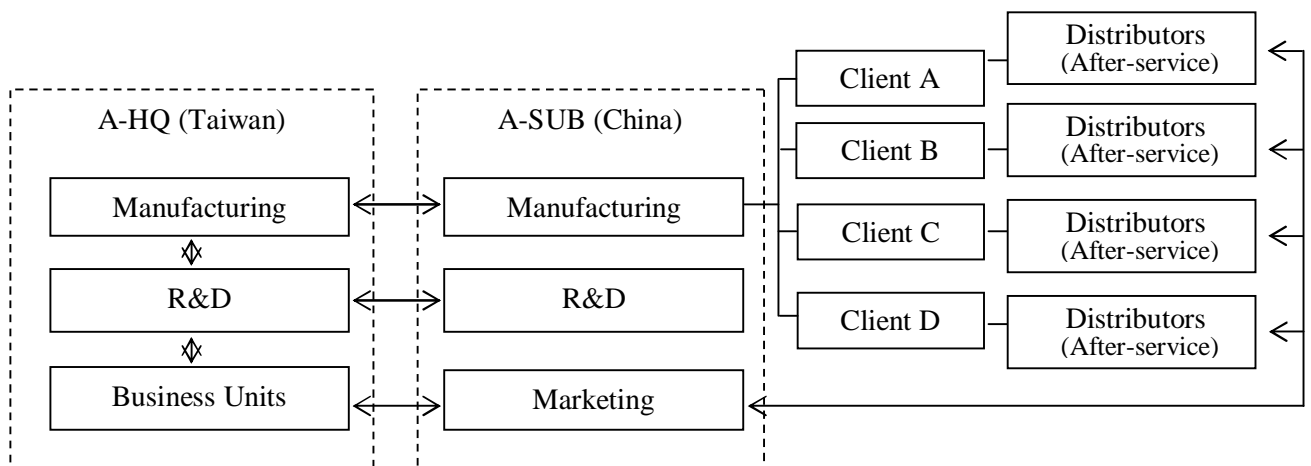


Figure 5.1 The organisational structure of A-SUB (1997)

The marketing department of A-SUB was renamed as the marketing headquarter of the Chinese market in 1998 and subsequently, when Alpha started operating a branding business in 2001, it commenced managing the marketing business of the products carrying this brand. Meanwhile, the after-sales service business was returned to the manufacturing department. Their experiences in after-service accumulated before facilitated the marketing staff of A-SUB being able promptly to set up distribution networks for promoting its own products. Hence, the required capabilities for operating the host market were not only developed from scratch, i.e. setting up a new marketing department, but also through exploiting the historical resources.

In China, we have provided manufacturing and after-sale services to our global brand marketers. Based on the experiences of working closely with distributors in places, we efficiently set up a distribution system for promoting the products labelled our own brand. Some distributors are those we worked together with before. (informant A01)

Figure 5.2 shows the organisational structure of A-SUB after it commenced the branding business in 2001, where it can be seen that four functional divisions: products, channels, market communications (MARCOMM) and a support service, were set up to operate the emerging market in China.

In general, the marketing department consists of four divisions, (1) Product: the main responsibilities of this division are setting product portfolios, such as positioning and pricing strategies for the products; (2) Channel: this division is in charge of communicating with distributors in cities and key accounts, such as IT chain stores; (3) Market Communication: setting and carrying out promotion activities are the main job of this division; (4) Support Service: this division manages the accounts of the distributors, product delivery, information systems and other logistical tasks. (informant A02)

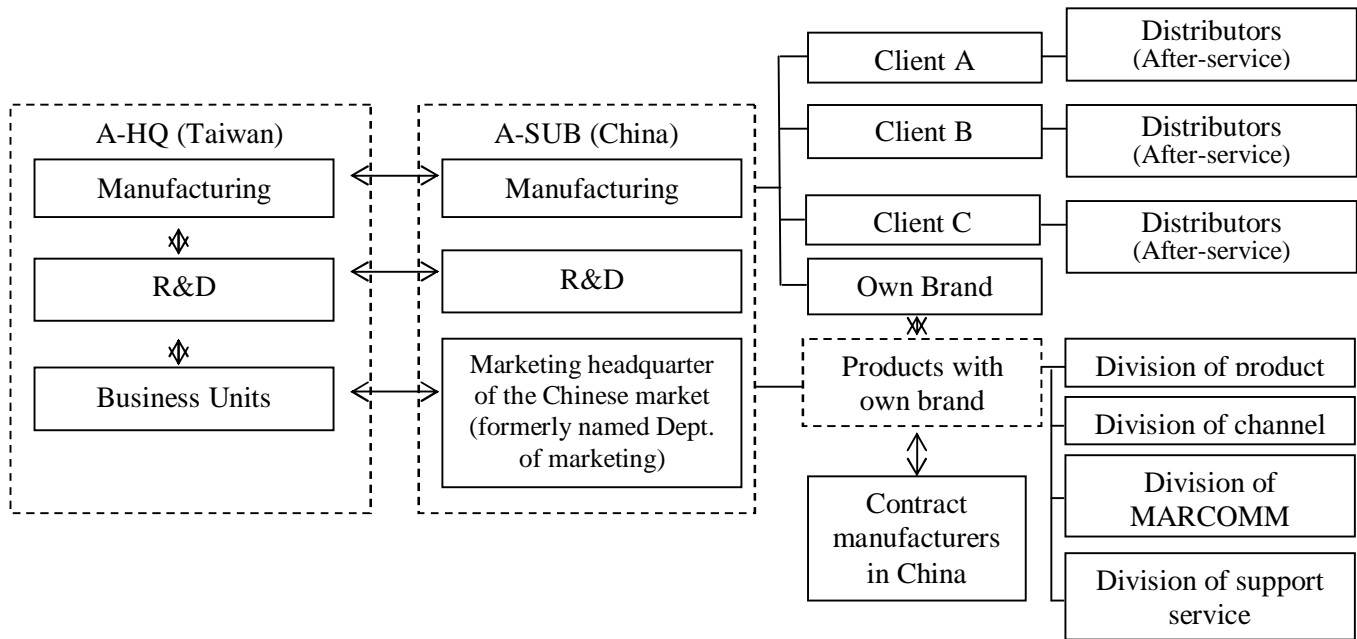


Figure 5.2 The organisational structure of A-SUB (after 2001)

The marketing department of A-SUB held comprehensive marketing-related functions, however, within the subsidiary its head did not have the power to instruct other departments. That is, the manufacturing and R&D departments reported to A-HQ directly with limited linkage to their marketing counterpart. Therefore, when it required support in R&D or product development, the marketing department of A-SUB had to request help by contacting A-HQ so as to obtain these complementary resources. In addition, the marketing department of A-SUB has been empowered by A-HQ to seek subcontractors by itself. Therefore, the horizontal linkage between functional departments within A-SUB has been limited. The issues regarding cross-border resource deployment in support of the host market-seeking business are further explored in chapter 6.

B-SUB set up a small, four-person team in charge of the Chinese market in 1993. In the few years after it was established, this marketing team tested the Chinese market by selling some product items originally for export. Subsequently, it was upgraded to a department named the marketing department of the Chinese market in

1997 (*Newsletter*, 24, 2001). However, in 2001, B-SUB made a loss caused by the huge costs associated with operating the Chinese market, which led to a massive restructuring of its marketing department. That is, the divisions of product and sales were established as individual entities separate from the division of administration (informant B02). Afterwards, the marketing department of the Chinese market was further reformed into the marketing headquarter of the Chinese market and the altered structure of organisation is shown in Figure 5.3.

After tapping into the Chinese market in 1997, we encountered increasing personnel costs and related expenses, which were exacerbated by the defaults of the account receivables. To address these problems, we downsized the marketing department, avoiding the unnecessary expenses, cleaning up the defaults, and reassessing the credit of distributors. The altered structure of the marketing department encompassed four divisions: Product, Promotion, Sales and Administration. (*Newsletter*, 24, 2001)

The four divisions of the marketing headquarter of the Chinese market are responsible for different duties in marketing activities. Firstly, the 'Division of Product' is responsible for surveying market demand, setting product portfolios, and following up the development progress of products. The 'Division of Promotion' is in charge of all marketing activities related to channels, including training promoters who work in IT chain stores. The main job of the 'Division of Sales' is to maintain our relations with distributors and key accounts. Frequent visits to distributors selling our products are essential for our business in the Chinese market. Lastly, the 'Division of Administration' is responsible for after-sales service, long-term planning, performance evaluation and human resource management. (informant B02)

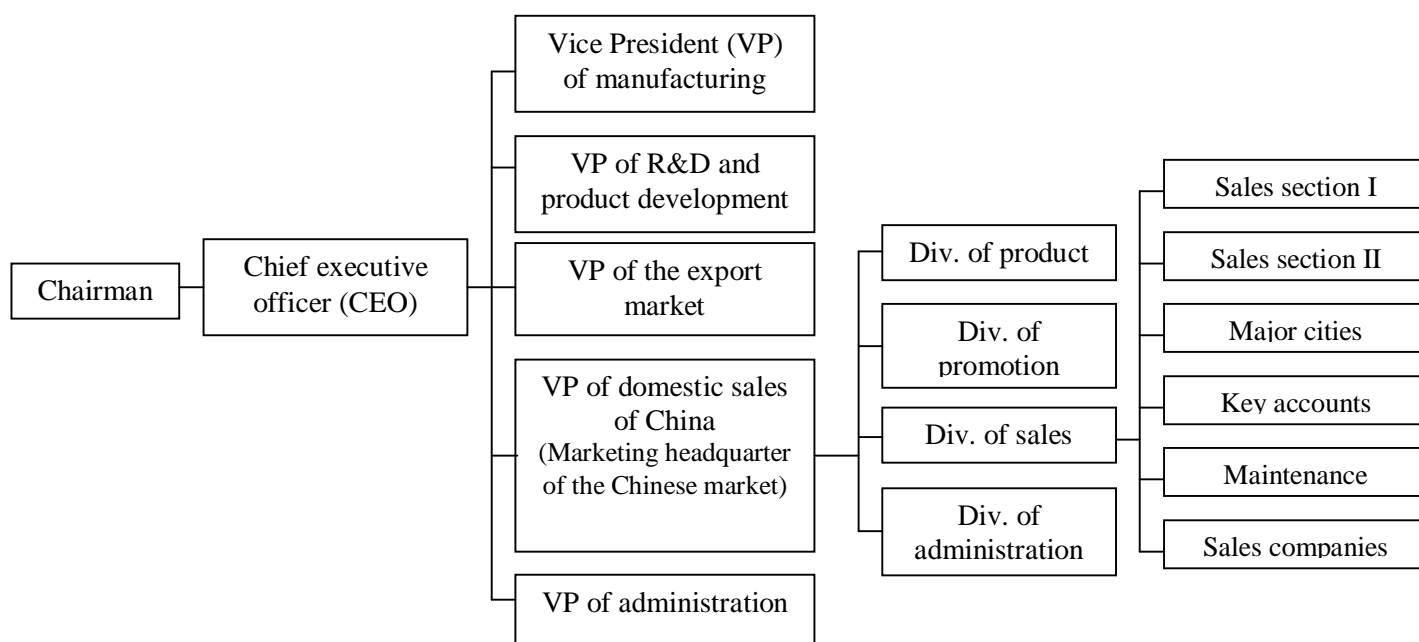


Figure 5.3 The current organisational structure of B-SUB (December, 2010)

Regarding the position of the marketing department within the whole subsidiary organisation, B-SUB's marketing headquarter of the Chinese market has been positioned as having equal status as the department of the export market (see figure 5.3). That is, both the export and domestic businesses are directed by the same level of top managers, vice presidents and this arrangement signals a balanced feature between them.

In order to facilitate cross-departmental communications, the director of the 'Division of Product' has been concurrently playing the role as deputy director of the 'marketing headquarter of the Chinese market'. Moreover, that person serves as one of the five vice presidents in our company. (informant B01)

5.4.2 Marketing-centric adjustments in the business process

Along with the changes in organisational structure, the organisational processes of the case subsidiaries were adjusted so as to align with the host market-seeking orientation. Given that the horizontal linkages between marketing and other functional

departments are limited in the case of A-SUB, this subsection focuses on how B-SUB changed its business process.

Different from operating the export-oriented contract manufacturing which primarily follows the requests of clients regarding cost, quality and delivery, B-SUB has had to manage the whole process, from developing products, and managing distribution channels, to contacting consumers as it has tapped into the Chinese market. That is, the marketing headquarter of the Chinese market holds the dominant role in the whole process of operating in the host market. As indicated before, the division of product has taken charge of product development and internal communications within B-SUB, throughout all the departments.

In practice, the original ideas for new products are put forward in cross-department meetings which are chaired by the division of product, and then passed on to department of R&D and product development. This department further transforms the ideas into production orders guiding the following manufacturing procedures. That is, working closely with different departments, the division of product takes charge of the whole process from shaping the direction of product development to the manufacturing of the final products. Moreover, B-SUB's standard operations procedure SOP in product development, which has been implemented since 2007 (*Newsletter*, 51, 2007), has also reaffirmed the pivotal position of the marketing headquarter of Chinese market in the business process.

After discussing with the branding consultancy company, we identified the positioning of our brand as low-key luxury and chose the middle to high-end market as our targeted segmentations. Afterwards, all departments met together to decide how to apply this newly-set brand image in terms of: R&D, manufacturing and marketing activities. In last year, we have held several press conferences to launch 20 new modes of rice-cooker of a low-key variety. (*Modern Electronic Appliances*, 2009 issue 23, 2009)

Our department [department of R&D and product development] transforms the ideas of new products, which are provided by the marketing headquarter of the Chinese market into the production process. The new items normally require at least one year's testing before being launched on the market. In particular, because compared to electronic fans, any faults in kitchenware products are more

likely to damage consumers' health directly. So we need to be cautious when testing these products. (informant B04)

Beyond the changes in the business process, organisational initiatives employed for responding to host market orientation were also observed in other managerial functions of B-SUB. For instance, the capability of developing new products has been identified by it as one of its core competences. Supported by a strong team of moulding, on average, B-SUB launches over 200 new product items per year (*Newsletter*, 43, 2005), but the speedy development of these has not guaranteed good market shares. In order to reduce the gap between innovation and consumer expectation, since 2008, several sources of market information have been integrated for precisely setting the direction of product development, including feedback from distributors, reports compiled by consultancy companies and surveys completed by the marketing staff themselves. In addition, the hit products of the export market are also evaluated to see if they fit with customer preferences in China.

At one time, we [department of R&D and product development] were keen to develop and launch, as many as we could, new items on the market. However, we observed that not all newly developed products received appreciation from customers. To address this gap, we have undertaken market surveys before starting developing new items since 2008. Consequently, the satisfaction of customer towards the new items has apparently improved. That is, we have been able to catch up with customer preferences and the movements of our competitors. (*Newsletter*, 55, 2008)

We [marketing headquarter of the Chinese market] have cautiously operated in the host market in China with the products carrying our own brand. As to the products giving high performance in the export market, we consider including them in the product portfolios of our host market business. (informant B06)

Another related issue is that regarding human resource management and B-SUB's division of product has recruited talent with a variety of specialities. This kind of diversified background has been helpful for reducing gaps in setting the direction of product development. The comprehensive nature of the team has resulted in a greater likelihood that their proposals for new products are accepted in the follow-up cross-department meetings and hence save time.

The division of product [of the marketing headquarter of the Chinese market] has recruited talent from diversified backgrounds, including industrial design, sales, R&D and so on. What is more, in order to keep abreast of the ever-changing markets, the staff of the division of product and the department of R&D and product design meets almost every day. (informant B01)

So as to encourage the exchanging of ideas between departments, B-SUB has reduced the communications gap within the organisation. For instance, the head of the division of product has actively communicated with the sales teams regarding the latest ideas in product development. Moreover, the head of the division of sales helps the sales teams to catch up on the new directions of product development by frequently travelling between B-SUB and the branch offices (informant B02). Meanwhile, B-SUB also provides learning materials to different levels of sales managers for strengthening their knowledge about the products.

In contrast to the division of product, which has taken charge of the whole process of product development by communicating between functional departments, no such organisational unit has been set up in the department of the export market. Instead, the sale teams for export business have managed client relations individually. Before the start of the sales season, the products developed by the department of R&D and product development are sent to foreign clients so as to choose which items fit with their demand. Afterwards, the manufacturing department produces the items by the volume requested by each client and then delivers them abroad.

The department of export market has not set up a division of product unit. Instead, sales staff manages the relations with individual clients. Moreover, unlike the division of product coordinating with the department of R&D and product development and then setting up product portfolios for the host market business, the clients of the export business select the product items they prefer directly from those we develop. (informant B06)

Similar to the marketing-centric changes undergone in product development, the R&D and manufacturing departments have also carried out adjustments to shorten the duration of operations so as to respond to the changing demands of the Chinese market. In practice, during the design period the manufacturing department assigns engineers to join the process and to point out the possible problems, such as potential

conflict in the assembling process, or any concerns over production costs (*Newsletter*, 55, 2008). Through intensively coordinating the manufacturing, product development and moulding departments, B-SUB has been able efficiently to reduce the duration of product development.

In previous years, delays in developing the moulds were commonly observed due to the limited communications between the departments of moulding and product development. Once the design of the product is changed, the moulds need to be changed. At the moulding department's request, the design team members have been able to get involved into the development process of new products and cooperate with R&D engineers since 2009. Conversely, the moulding engineers now also actively participate in the R&D process. In consequence, the period of product development has been shortened by one-third. (*Newsletter*, 58, 2009)

In order to improve the production efficiency and to cope effectively with the changing markets, we raised the involvement of the manufacturing department in the design process. First, the manufacturing managers are now deployed to the R&D department to follow the design process of new products. According to the opinions of the manufacturing managers, the R&D engineers can adjust the design in the early stages, and then avoid possible conflicts and waste occurring in following procedures. Removing all the possible factors leading to blockages make the assembly lines run smoother. (*Newsletter*, 55, 2008)

In addition, the management information system of B-SUB was improved to accommodate the growing business in the Chinese market. Consequently, equipped with an information system linking the marketing offices in provinces and cities in China, the marketing headquarter of Chinese market is now able to sense in a timely manner the market changes according to the information collected from the host market (*Newsletter*, 60, 2010).

Another notable practice is that the capability of product development generated in the host country in China has created a spill-over effect to the business of the export market. That is, in contrast to selecting products originally for export market and selling them to the host market, with the growing business of the host market, B-SUB nowadays launches new products in China first and then promotes them to foreign clients. This phenomenon represents reverse capability leverage between the

export-oriented and host market-seeking oriented business. In particular, it was found in one of the studied cases that some products have been initially launched in China and then promoted in developed nations.

The newly-launched products of this year, a series of products carrying an ecological concept with energy-saving features, were entirely developed in Shenzhen and the Japanese and Korean clients expressed their interest in these items after we launched them in China. (informant B01)

5.4.3 The gap between the demand of the host market and the product portfolio

In terms of undertaking changes in business process so as to meet the host market-seeking orientation, it was observed that A-SUB conducted practices similar to those of B-SUB. For instance, the division of product of A-SUB has taken charge of the development of new products. However, compared to B-SUB, A-SUB has faced a greater gap between the market demand of the Chinese market and the product portfolio it set up. Some comments from its distributors in relation to this were as follows.

From distributors' views, Alpha is keen to develop new products carrying advanced technologies, however, neglect the mainstream market. Perhaps Alpha didn't target it due to its declining margins. But I suggest that Alpha still has to allocate resources for maintaining presence in the wider market. A balance of high end and mature market participation means it would not only be able to keep consumer awareness about Alpha's brand name, but would also strengthen the distributors' support for it. We definitely welcome the launch of new products with state-of-the-art technologies, such as LED Monitors, but the mainstream products, LCD Monitors, have to be kept at the same time. (informant A15)

The informants were further requested to comment on Alpha's strategies in setting up product portfolios and one pointed out that there was substantial negative feedback from the distributors.

I have to agree that even our company is good at launching new products with advanced technologies; however, we are not so good at setting up product

portfolios. For instance, we need to maintain the entry-level products for keeping consumer support towards our brand. That is, for enterprises leading market demand applying advanced technologies, seizing the market opportunities and maintaining the existing market are of equal importance. We have to keep our consumers brand aware through pervasive exposure to products, for a lack of presence of our products in the market will damage our brand image. For products at mature stage of their life cycles, they still play substantial role in holding the presence of brand. We can outsource the manufacturing of these products to local factories if their margins are too low. (informant, A10)

Hence, it can be seen that although A-SUB has been able to roll out new products on the Chinese market rapidly, the initial response from customers towards these products was not particularly favourable. According to the interviews with the distributors, A-SUB focused on specific market segmentations as instructed by headquarters. Consequently, the distributors found they could not properly develop the portfolios of products to fit with the demand of the domestic market. In general, A-HQ has dominated the process of A-SUB's setting its product portfolio. In particular, as shown in Figure 5.1, the marketing department of A-SUB has not been allowed to hold the complementary resources for their operations in China, such as R&D. As a result, although A-SUB has gradually gained autonomy to launch products specific for the Chinese market, the items have been adjusted from the items originally developed by A-HQ, rather than having been initiated from the host market demand. The experiences of A-SUB indicate that the acquisition of marketing capability not only relies on the internal process of the marketing departments, or the subsidiaries themselves, but also the complementary resources managed by other actors. Chapter 7 will further explore the related issues from the perspective of headquarters-subsidiary relationships.

By contrast, B-SUB has covered the market by producing a comprehensive range of products. Furthermore, when comparing its direction of product development with A-SUB, B-SUB has undertaken substantial innovation in its products in responsive to the demands of the host market. In particular, since 2010, B-SUB has extended its product portfolio from electronic fans and heaters to include kitchenware goods. That is, unlike the seasonal items which it originally manufactured, it has now invested in developing kitchenware items targeted at an expected increase in demand

in the Chinese market in the near future. These newly-launched items are being exclusively sold in China, for now. B-SUB also plans to export their kitchenware items to foreign countries in order to reduce its over-reliance on the seasonal items (electronic fans and heaters) in generating profit (Newsletter, 59, 2010). Regarding these, nowadays, the seasonal items, on average still comprise 80-90% of B-SUB's gains from its export business, but they are vulnerable to climate change, which the aforementioned diversification can help address.

Overall, the organisational initiative of capability building has been seen to have involved a series of organisational processes in this subsection. The first response has been to set up new marketing departments responsible for operating in the host market. Subsequently, the marketing departments of the case subsidiaries have gradually come to dominate the value-creating process, but there have also been substantial developments in other managerial functions. However, there has been some divergence in the trajectories of the host market orientation transformations of the case companies. For Alpha, given that A-SUB accumulated experiences in relation to contacting distributors before tapping into the Chinese market, it subsequently efficiently built up the distribution network for its own products. However, given that A-SUB has had to communicate with A-HQ to obtain the complementary resources for its host market business, the HQ-driven resource deployment has been unable to respond effectively to host market demand.

In contrast, lacking experience of managing an after-sales service like A-SUB, B-SUB has encountered more adjustments in its organisational structure. In relation to resource deployment, cross-functional communications between B-SUB have been achieved owing to the co-location of its managerial functions. Hence, the distinctive features observed need to be taken into account when capability building in the context of MNE resource deployment between headquarters and subsidiaries is investigated in detail in chapter 7.

5.5 Coordinating the export-oriented and host market-seeking oriented business within the subsidiary organisations

In the previous two sections, how the case subsidiaries undertook capability leverage and capability building was investigated. It emerged that the historical contract manufacturing-based resources were exploited so as to support the development of a new type of business, namely operating in the host market in China. Furthermore, the case subsidiaries set up marketing departments responsible for the host market business, and aligned their business processes with a host market-seeking orientation. With the growing business in the host market, A-SUB and B-SUB were gradually transformed into subsidiaries operating in the export and host market simultaneously, i.e. employing a dual market strategy (Buckley & Meng, 2005). This section seeks to explore the synergies and conflicts caused by the two co-existing types of business, which held distinctive features for each firm.

The synergies generated from operating both types of business at the same time are largely found at the manufacturing-end of the value chain, such as sharing the manufacturing capacities. By contrast, given the distinct market orientations, the marketing activities of the contract manufacturing and host market business have had to be managed by individual teams.

R&D, testing, moulding and manufacturing are the main resources shared by the contract manufacturing and host market business. The procurement cost of the materials commonly used by both types of business can be reduced due to the bigger volume. However, we [marketing headquarter of the Chinese market] manage the market research, product development, branding positioning by ourselves. Compared to the export business which largely follows the expectations of clients, we have to operate the brand and contact customers so as to respond to the changing market demand. (informant B02)

Beyond achieving economies of scale, e.g. reducing the procurement cost in commonly-used materials, operating the two types of business simultaneously also has facilitated the case subsidiaries in diversifying risks caused by market uncertainty. In the case of B-SUB, its profit margins have been healthy and stable for several years with each part of the business representing approximately half of the turnover, thereby endorsing the balanced strategy that has been employed. By doing so, the profit

generated from the export market has partially covered the losses caused by volatile business of host market.

Due to the stable margins of the export market, the balanced strategy won't be changed at least in the coming two or three years. (informant B06)

Regarding the conflict between the two types of business, the manufacturing resource is a typical instance. That is, in B-SUB, given that the peak seasons for manufacturing products for the export and host markets are close, it has encountered competition between the two over the manufacturing resource. However, owing to the orders of the host market being controlled by itself, B-SUB has been able to arrange the production schedule for the host market earlier so as to avoid an overlapping period of manufacturing.

Unlike the export business, which passively follows the instructions from clients, we are able to set up the production schedule by ourselves when we operate the host market in China. Therefore, we can flexibly schedule the production plan for the host market for during the non-peak months of production. However, the risks of default and inventory deriving from the host market business are greater. (informant, B02)

The conflict between export and domestic business is inevitable. Given that the products for export market have to be manufactured intensively in specific months, we have arranged the production of products for the host market earlier. For instance, we can assemble the basic models of fans and heaters due to their predictable volume. However, the production of newly-launched products often conflicts with the export business because we have no historical sales records. (informant B02)

Unlike the orders of the export business having clear deadlines, i.e. the products have to be manufactured and delivered before a precise date, the case subsidiaries hold autonomy for arranging the production schedule of products for the host market. That is, A-SUB and B-SUB manufacture the products for the Chinese market according to an estimated number of sales and then deliver them to distributors when they have received payment. In other words, compared to manufacturing products for the export market, the case subsidiaries have been tasked with managing more of the

logistical tasks of warehousing and delivery for the host market business. Given the relatively flexible delivery dates, the manufacturing department has prioritised the orders of the export business.

The basic difference between the orders of the export and host markets is that the former has a precise deadline for delivery, while the latter holds a flexible timetable. Moreover, if delays in delivery are caused by the manufacturing department, the export team has to pay high expenses in transportation, probably having to ship the goods by air. By contrast, we store the products for the host market in warehouses and deliver when we receive payment from the distributors. Given that the delivery dates are relatively flexible, the manufacturing department manage the orders of the export market with top priority. For further addressing the potential conflict, we need to improve our management systems, such as by considering the orders of the Chinese market as having the same level of importance as our external clients, which is not the case at present. That is, the manufacturing department should be made to complete the production and ship products into the warehouse on time. (informant B02)

By contrast, given its organisational design, A-SUB has encountered less conflict derived from the distinctive features of the export and host market business. As indicated in Figure 5.1, the manufacturing and marketing departments of A-SUB hold limited horizontal linkages. Therefore, for the manufacturing department of A-SUB, the orders placed by the marketing department would be expected to be equally treated as those orders issued by foreign clients. Nevertheless, the former head of the manufacturing department (informant A10) mentioned that the orders of the host market were inevitably treated as being not as important as those for the export market due to their smaller volume, especially at the inception of tapping into the host market in China. After the orders of host market gradually increased, the manufacturing department treated the orders of export and host market business more equally. Moreover, the workers on the assembly lines of A-SUB have been trained into skilled teams then can switch easily between the different types of orders.

The manufacturing and marketing functions were separately managed in the first few years after A-SUB was established. That is, for the manufacturing department, the marketing department was just like another client placing orders with it. (informant A04)

In my opinion, we needed to train the workers on assembly lines to be able to cope with different types of orders, rather than categorising them into export or host market. They had to be trained to manage the orders with high diversities and low volume, so we arranged for the workers assembling products in Suzhou [factory of A-SUB] to visit our assembly lines in Taiwan, and learn how to switch effectively between orders with different sizes of production volume. (informant A10)

Moreover, given that A-SUB's marketing managers are now allowed to search for local subcontractors whose manufacturing services fulfil their requests in quality and cost, this pressurises its manufacturing department into dealing fairly with all types of orders, whether they are for the export market or the domestic market in China. Regarding this aspect, B-SUB, which insists upon manufacturing all products on in house assembly lines, has had more management issues in relation scheduling production plans. As a consequence, the marketing department of B-SUB once complained that its orders were not equally treated by the manufacturing counterpart as those placed by foreign clients (informant B02). With the growing importance of host market business reflected by the increasing volume of orders, the two types of orders are now being given a more equal status.

5.6 Concluding remarks and discussion

5.6.1 A summary of case illustration

This chapter has investigated how A-SUB and B-SUB reconfigured their export-oriented resource bases for extensively operating the host market in China. Following the concepts grounded in the extant literature, two types of resources and capabilities were explored: (1) historical (or existing) resources and capabilities and (2) newly-acquired resources and newly-developed capabilities. These two types of resources and capabilities further correspond to the organisational initiatives of capability (or resource) leverage and capability (or resource) building, respectively. In this chapter, it was elicited that these two initiatives, together with capability upgrading and coordination capability, which were generated from analysis, have been identified as

the four key initiatives involved in the resource reconfiguration process. The empirical evidence with regards to those initiatives adopted by the case subsidiaries are summarised in Table 5.1.

Table 5.1 Summary of the within and across-case analysis

Initiative	Actions / Organisational Practices	Evidence-Alpha	Evidence-Beta
Capability (or resource) upgrading	<ul style="list-style-type: none"> Upgrading the manufacturing and related resources / Capabilities so as to get orders from additional clients 	<ul style="list-style-type: none"> Improving the quality of product so as to get additional orders from local PC brand marketers 	<ul style="list-style-type: none"> Improving the quality of product and increasing manufacturing capacities so as to get additional orders from Korean/Japanese clients
Capability (or resource) leverage	<ul style="list-style-type: none"> Exploiting the historical resources to support the host market business 	<ul style="list-style-type: none"> Some staff of the manufacturing department were assigned to manage the host market business Promoting hit products of the export market to the host market in China 	<ul style="list-style-type: none"> Promoting hit products of the export market to the host market in China
	<ul style="list-style-type: none"> Addressing the potential conflict between own brand and clients' benefits 	<ul style="list-style-type: none"> Subtle changes in the specifications of products 	<ul style="list-style-type: none"> Geographical separation of the markets
Capability (or resource) building	<ul style="list-style-type: none"> Building up new departments and changes in organisational structure 	<ul style="list-style-type: none"> New marketing department in charge of the Chinese market 	<ul style="list-style-type: none"> New marketing department in charge of the Chinese market Limited horizontal linkages between managerial functions
	<ul style="list-style-type: none"> Changes in the business process 	<ul style="list-style-type: none"> Marketing-centric adjustments to the business process 	<ul style="list-style-type: none"> Marketing-centric adjustments to the business process

Initiative	Actions / Organisational Practices	Evidence-Alpha	Evidence-Beta
	<ul style="list-style-type: none"> Product development to address the gap between local market demand and the extant product portfolio 	<ul style="list-style-type: none"> Highly controlled by A-HQ Adapting products developed by A-HQ for China 	<ul style="list-style-type: none"> Launching a new series of products in China (kitchenware)
Coordination capability	<ul style="list-style-type: none"> Addressing the potential internal conflict between the export and host market business 	<ul style="list-style-type: none"> Training of labour for coping effectively with a wide range of orders 	<ul style="list-style-type: none"> Prioritising the orders of the export market

First, at the beginning of A-SUB and B-SUB being established in China, seeking manufacturing efficiency was the strategic positioning assigned by their parent companies. Subsequently, A-SUB and B-SUB constantly strengthened their quality of product and expanded their manufacturing capacities so as to secure orders from clients. Notably, both case subsidiaries not only managed the orders allocated by headquarters, but also actively explored for new clients, e.g. A-SUB took charge of the after-service of HP products, whilst B-SUB obtained orders from Korean and Japanese clients. The process of broadening the range of customer, which is grounded in upgraded historical resources and capabilities, later facilitated the case subsidiaries tapping into the host market in China. That is, the extended corporation ties with leading brand marketers were helpful for them to convince local distributors to believe their quality of product and manufacturing capacities. This issue regarding inter-firm relations with the distributors is discussed extensively in the next chapter.

Second, defined as extensively exploiting the unutilised values of existing resources and capabilities to the new fields (Danneels, 2007; Luo, 2002; Tallman, 2001, 2009), the concept of capability (or resource) leverage was adopted to investigate the role of the historical resources and capabilities that the case subsidiaries held. In practice, at the start of operating in the host market in China, it was found that the value of the contract manufacturing-based resources were exploited so as to support the new business model, host market orientation. In

particular, the exploitation of historical resources was conducted in several ways involving: products, human resources and financial support. By contrast, organisational capabilities reflected in changes in the organisational structure and the business process were not observed.

Third, capability (or resource) building, referring to the need to address the lack of local marketing competences is a pressing challenge when attempting to exploit opportunities in a new host market and has been defined as "the abilities to recognise and exploit local market opportunities" (Wu, et al., 2007, p.286). Regarding this, starting from setting up marketing departments in charge of the local market, the case subsidiaries gradually aligned the business process with the host market-orientation. Beyond the marketing departments, organisation wide alignment was observed during the shift in market-orientation (Kohli & Jaworski, 1990), such as the lean manufacturing and improvement of the management information systems. As to the organisational structure of each subsidiary, B-SUB made more adjustments in the structure of its marketing department than A-SUB, which can be attributed to their different experiences of international marketing. For A-SUB, given that Alpha set up subsidiaries for marketing activities in different countries before investing in China, it was able to establish efficiently the department without subsequent changes in its organisational structure. However, A-SUB faced difficulty in persuading Alpha to provide sufficient complementary resources for its operations in the host market. In contrast, except for some trading with clients in the EU and US markets, Beta had limited international management experience. Consequently, by the means of clustering all managerial functions at the same location, Shenzhen, the cross-border resource deployment issues that B-SUB faced were minimised.

Meanwhile, A-SUB and B-SUB undertook initiatives to eliminate the doubts of clients over the possible conflict between their business interests and the subcontractors' operations targeted at the Chinese market. That is, A-SUB slightly altered the specifications of its products so as to differentiate the positioning of their own from those under their contract manufacturing. By contrast, for B-SUB, products labelled with its own brand have exclusively been sold in the Chinese market.

The concepts of exploitation and exploration learning, initiated by March (1991), were adopted to refer to different type of business with market orientation. That is, the

case subsidiaries exploited their historical resources as they operated the export-oriented business; while they have developed the required (marketing) capabilities so as to operate the host market-oriented business. On this basis, given that two types of business have been operated simultaneously by the case subsidiaries, it can be seen that both types of learning coexisted during the transformation. This corresponds with the concept of 'organisational ambidexterity' (Gibson & Birkinshaw, 2004), which refers to an organisation being able to undertake learning mechanisms simultaneously holding both short-term and long-term perspectives at the same time and hence, is adopted here to explain this phenomenon.

However, the ambidextrously operating the both businesses has brought on benefits and tensions for the case subsidiaries. That is, on the one hand, A-SUB and B-SUB benefited from the synergies generated from operating both types of business at the same time, such as procuring the commonly-used materials at lower cost, sharing R&D resources etc. From the financial perspective, the export-oriented business financed the operation of the host market-oriented business. However, on the other hand conflicts caused by competing for specific resources, such as arranging manufacturing capacities during the peak months of production, were observed in both cases. The concept of coordination capability has been introduced to represent how they addressed such conflict so as to achieve internal consistency (Uhlenbruck, et al., 2003). In practice, training workers on assembly lines to manage orders of varying volumes and encouraging distributors to place orders earlier, were the initiatives adopted by A-SUB and B-SUB, respectively.

For A-SUB, its limited horizontal linkages between the manufacturing, R&D and marketing departments meant it encountered less conflict resulting from operating the two types of business simultaneously. That is, all of A-SUB's managerial functions made contact with their corresponding departments in A-HQ directly and there was little contact across departments within the subsidiary. This highlights the fact that for MNEs managed like A-SUB when considering coordination capability and internal embeddedness (Yamin & Andersson, 2011) links with headquarters also need to be taken into account. In chapter 7 there is further investigation into the practices between the headquarters and their respective case subsidiaries. The analysis

outcome regarding resource reconfiguration derived from host market-oriented subsidiary transformation is presented as figure 5.4.

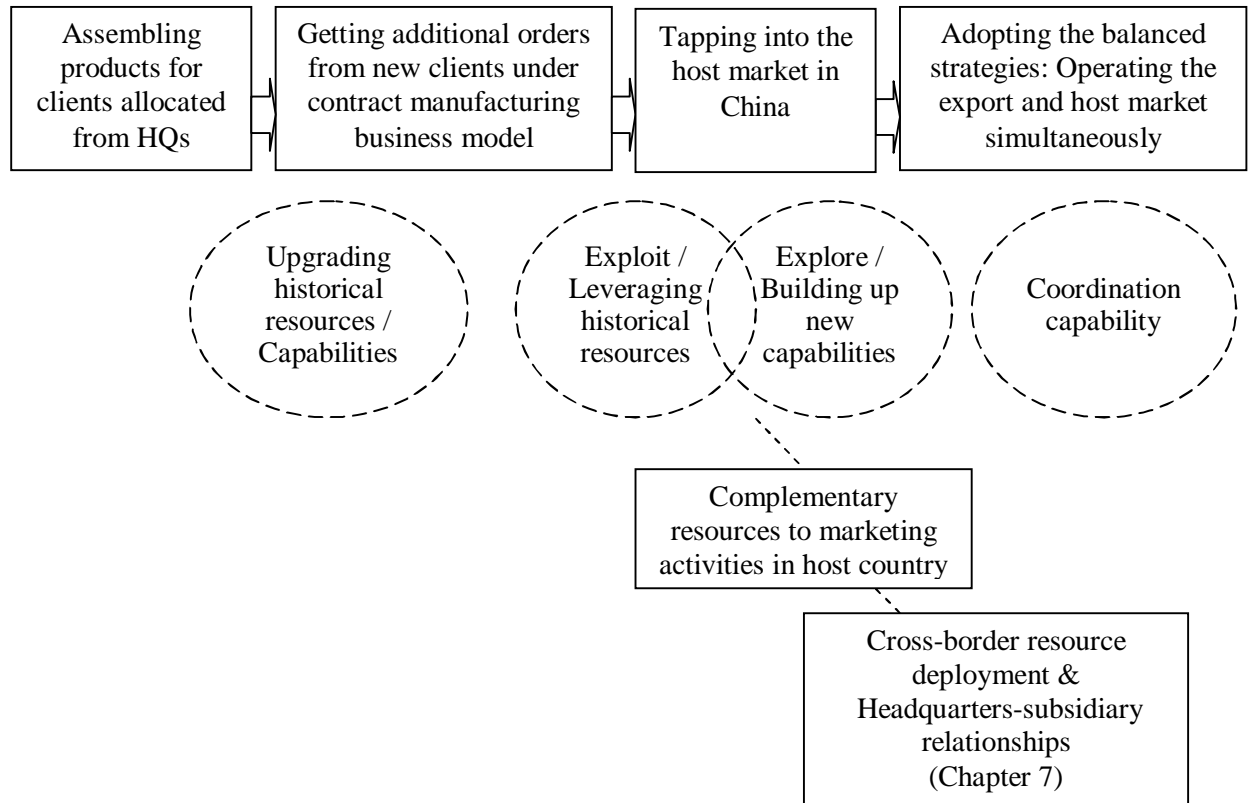


Figure 5.4 Analysis outcomes regarding subsidiary transformation for the aspect of the resource reconfiguration of a subsidiary organisation

5.6.2 Discussion and the propositions raised from the case studies

The focus of this chapter has been on the organisational initiatives undertaken by the case subsidiaries so as to reconfigure their resource bases for the subsidiary transformation. The existing literature on subsidiary-level strategy has suggested that the subsidiaries of MNEs managing the host market undertake more capability exploitation and building than those seeking export market growth (Luo, 2002). However, the distinctive nature of the organisational initiatives conducted by

subsidiaries in different contexts has not been completely investigated. Therefore, following the advocacy that the resource circumstances of subsidiaries have to be considered (Cavanagh & Freeman, 2012), this study has unveiled how the subsidiaries of two Taiwanese MNEs coped with the resource / capability issues they encountered.

Based on the above analysis, it is concluded that there are two main organisational practices that were adopted by the case subsidiaries: prioritising exploiting their historical resources and undertaking exploitation and exploration learning simultaneously. Regarding the former, the experiences of the focal cases show that historical resources have been continually exploited so as to support the operation of the host market in China. This finding is not consistent with the studies on business transformation in transition economies, in which it emerged that historical resources have become obsolete (Newman, 2000) or recognised as barriers to organisational growth and therefore were gradually replaced by newly-developed resources (Dixon, et al., 2010; Uhlenbruck, et al., 2003). That is, by undertaking capability (or resource) leverage, the historical resources have been retained within the case subsidiaries with the aim of supporting the development of the required local marketing competences (Wu, et al., 2007). In addition, the process of capability (or resource) leverage observed in the case subsidiaries is different from that which Danneels (2002) put forward, where organisations undertake initiatives that involve *õ*de-linking from the existing clients*õ* and *õ*re-linking to the new clients*õ*, to achieve this leverage (Danneels, 2002). That is, A-SUB and B-SUB have operated the two types of business simultaneously without changing the relations with existing customers.

Next, the concept of organisational ambidexterity has been employed to represent the co-existing two types of learning, exploitation and exploration, which refer to the export-oriented and host market-oriented business, respectively. Some of the literature regarding organisational ambidexterity has proposed that small companies are not likely to undertake exploitation and exploration learning simultaneously owing to resource deficiency (Ebben & Johnson, 2005; Jansen, Bosch, & Volberda, 2006). However, others have contended that large companies are less likely to keep a balance between these two types of learning due to organisational inertia, even if they possess slack resources that could be utilised (Gibson &

Birkinshaw, 2004; Lubatkin, Simsek, Ling, & Veiga, 2006). Rather than company size determining this, ambidexterity has been observed in this study as pertaining to the risk caused by the uncertainty of new business. That is, in order to use the profit generated from export-oriented business to compensate for the loss caused by operating the host market business, the case subsidiaries have operated both types of business (or namely, adopted balanced strategies) at the same time. The supportive evidence regarding this is that during the first eight years of tapping into the Chinese market (1997-2004) B-SUB's sales in China were unstable, because it was not familiar with the local distribution sector.

The following propositions are raised to represent the two main findings regarding this aspect of the investigation. The first finding relates to the case subsidiaries prioritising the exploitation of their historical resources so as to address the resource gap derived from extensively operating the host market-oriented business. In practice, both case subsidiaries initially tapped into the host market in China on a trial basis through leveraging their historical resources, such as by selling the hit products of their export markets to local consumers.

Furthermore, the scale of resource reconfiguration and resource characteristics are employed to raise the proposition regarding the finding above. On the one hand, it has emerged that A-SUB and B-SUB faced a deficiency in local marketing competences (Wu, et al., 2007) when they commenced operating in the host market in China. In fact, given that the whole of the subsidiary organisations was positioned for continuing the business model of contract manufacturing, they had to build their marketing-related capabilities from scratch as they started to tap into the host market. That is, without the marketing-related capabilities and familiarity with the Chinese market, the case subsidiaries needed engage in a large scale resource reconfiguration in order to meet their market-orientation objectives effectively. As indicated in subsection 5.4.2, the case subsidiaries exploited their historical contract manufacturing-based resources first and then adjusted their organisational structures and business processes towards marketing-centric ones. By doing so, it is argued that the process of addressing the resource deficiency in marketing competences is an organisation-wide resource reconfiguration.

On the other hand, the knowledge types in MNEs and their characteristics are identified as another factor determining the practice of case subsidiaries exploiting the historical resources prior to developing new marketing-related ones. As the case illustration shows, the building of marketing capabilities has relied on a series of organisational processes with close interaction between staff of different units. That is, the marketing-related capabilities hold more tacit features than other forms of organisational knowledge (Simonin, 1999) and thus provoke higher transaction costs when MNEs attempt to acquire them from the host environment (Yiu & Makino, 2002). Therefore, the first proposition is put forward as follows.

Proposition 1a: The greater the scale of resource reconfiguration caused by new business for EMNEs' subsidiaries, the more likely they are to prioritise exploiting their historical resources during the initial stage.

Proposition 1b: The greater tacitness of the required resources for developing new business for EMNEs' subsidiaries, the more likely they are to prioritise exploiting their historical resources during the initial stage.

The second proposition is related to the ambidextrous feature of operating existing and new business at the same time, which is identified as the other main finding regarding subsidiary-level resource reconfiguration. As indicated in section 5.5, through undertaking initiatives to address the conflict between the two types of business, e.g. manufacturing capacities, some synergy effects were generated from operating the two businesses simultaneously. That is, given that the existing and new business supported each other in several ways, particularly in relation to the export-oriented business providing foreseeable profit so as to finance the host market business with high volatility, the simultaneous operation of the two businesses was retained. Accordingly, the second proposition is raised to explain the organisational ambidexterity from the perspective of addressing the uncertainty risk.

Proposition 2: The greater risk caused by the uncertainty of new business, the more likely subsidiaries of EMNEs are simultaneously to adopt exploitation and exploration strategies.

Along with operating both businesses with distinct market orientation simultaneously, adjustments in organisational structure and business process are needed. In this regard, A-SUB faced fewer issues in cross-department communication given its limited horizontal linkages between managerial functions. However, the product development which was controlled by A-HQ through most of the period of the investigation constrained its responsiveness to the demands of the host market. This reaffirms the importance of effectively clustering the complementary resources at the same location, either through resource transfer within MNEs or the practice of migrating headquarters as observed in case Beta. These issues will be further explored in chapter 7.

The organisational initiatives undertaken by the case subsidiaries in relation to the resource reconfiguration are shown in Figure 5.5, with the two propositions raised in this chapter. Future research should focus on identifying the relative strengths of the three additional determinant forces indicated in the aforementioned propositions, by conducting comparison studies. For instance, investigating the process of resource reconfiguration in other contexts, which require different kinds of resources so as to address resource deficiency (Hong & Nguyen, 2009).

Moreover, another kind of dynamic capability in the context of subsidiary transformation has been identified: coordinating the distinctive types of business (export-oriented and host market-seeking) within the subsidiary organisations. Given the lack of internationalisation experiences before tapping into the host market of China, B-SUB spent years in adjusting its organisational structure to fit with the newly-extended host market business. Contrastively, Alpha's experiences of contacting local distributors, which was accumulated during the *ex-ante* period, facilitated its subsequent efficient operations in the host market. However, given that A-HQ held most of complementary resources for operating the host market, A-SUB has had to deal with the resource transfers and communications with its headquarters when coordinating the two businesses. Therefore, it is posited that the concept of resource complementarity (Helfat, 1997) has to be considered when researchers explore the resource reconfiguration of MNEs, rather than merely focusing on the cross-border flows of the same type of resources, i.e. technological resources.

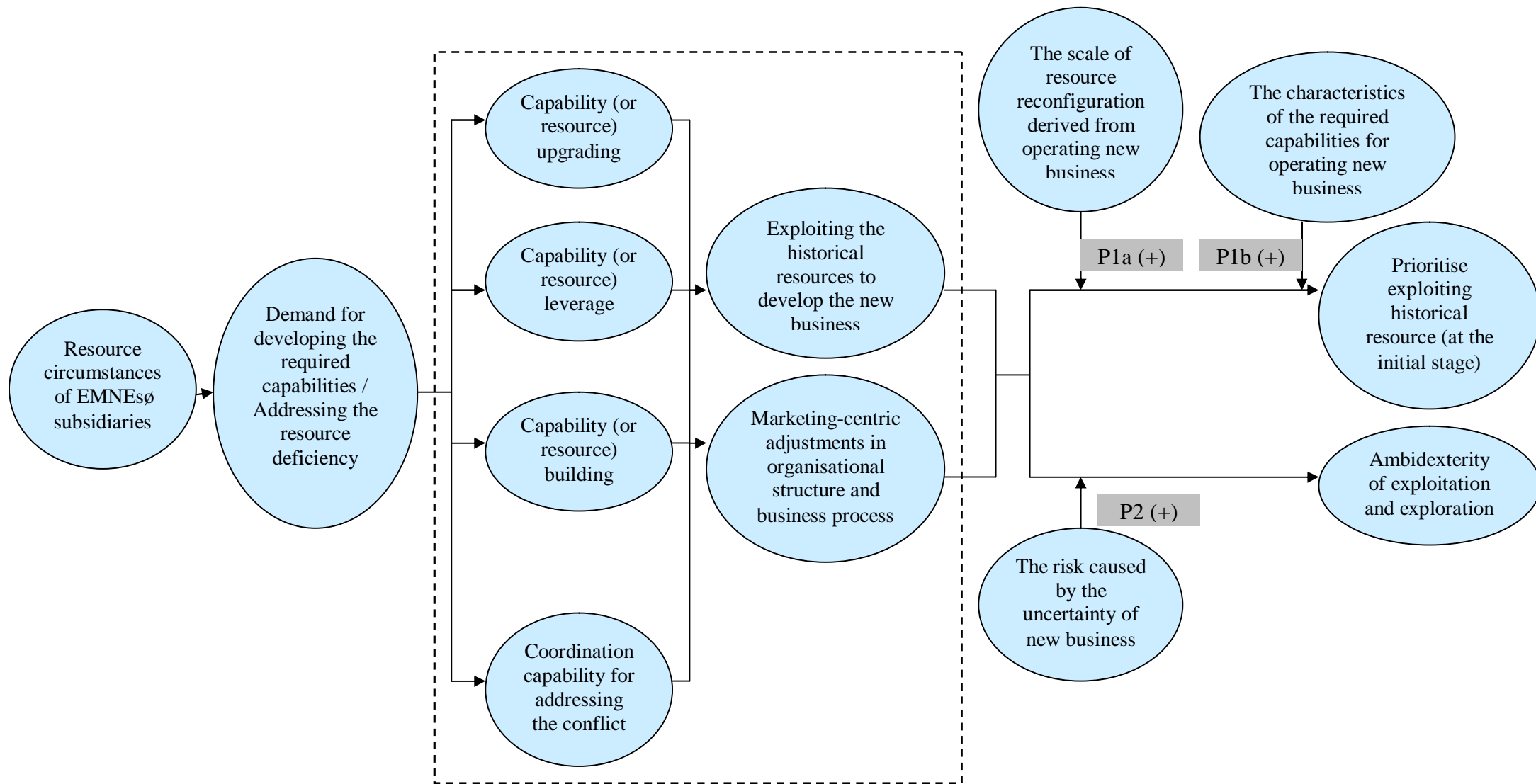


Figure 5.5 The organisational initiatives and propositions regarding subsidiary transformation for the aspect of subsidiary-level resource reconfiguration

Chapter summary

Taking an internal organisational perspective, the focus of this chapter has been how the two case subsidiaries reconfigured their resource bases to engage in host market-seeking oriented transformation. It was found that A-SUB and B-SUB have continually exploited the value of their historical resources, in relation to products, human resources, and financial resources, to support their operations in the Chinese market. By investigating the changes in organisational structures and business processes, the measures taken by case subsidiaries to address the resource deficiency in local marketing competences were further explored. Moreover, it was observed that export-oriented and host market-oriented businesses have been operated simultaneously by them. However, they have faced distinctive challenges: adequately setting product portfolios and scheduling production. The former refers to the MNEs allocating complementary resources to marketing activities in the host country, while the latter relates to the competition for resources caused by running two types of business concurrently. These managerial issues have demonstrated that the resource reconfiguration process cannot be completely unveiled if the external actors are neglected, which will be explored in the following chapters.

Theoretically, in contrast to the extant literature having suggested that historical resources might become obsolete during the process of business transformation, the findings of this study have demonstrated their important role in addressing the resource deficiency derived from new business. The scale of the required resource reconfiguration and the characteristics of the required resources for new business are identified as the two dominant factors leading to this outcome. Moreover, through interpreting the practice of co-existing export-oriented and host market-oriented businesses from the perspective of avoiding the uncertainties of operating the latter, this outcome provides a novel way of explaining the phenomenon of organisational ambidexterity.

Chapter 6 Managing the inter-firm relations between subsidiaries and distributors

6.1 Introduction

Defined as “extensions of sales force and partners in serving users” (Day, 1990), distributors hold key roles as gatekeepers for companies attempting to get access to markets. In particular, given the lack of institutionalised distribution sectors, the business environments in emerging economies often leave foreign investors puzzled as to how to find suitable distributors so as to reach domestic consumers (Herndon, 2011; Luk, et al., 1998). Focusing on the inter-firm relations between case subsidiaries and distributors, this chapter explores (1) how the case subsidiaries searched for and maintained their relations with distributors, (2) how the distributors got involved in the value-creating activities of the case subsidiaries and (3) how the resource bases of the case subsidiaries were aligned with these newly-developed relations with the distributors.

Moreover, these three aspects are addressed by focusing on the particular context of EMNEs investing in other emerging economies with a host market orientation. That is, the two case companies and their subsidiaries in China faced the dual liabilities, liabilities of emergingness and liabilities of foreignness, as they tapped into the host market. The former refers to the resource deficiency that EMNEs encounter when they begin to operate in a foreign market (Madhok & Keyhani, 2012), such as holding limited marketing capabilities or brand equities, whilst the latter refers to the unfamiliarity of host market contexts (Zaheer, 1995), which are amplified by the institutional voids common in emerging economies (Khanna, et al., 2005). However, the inter-firm relations between subsidiaries and distributors have not remained the same as during the initial phase. That is, with the growing brand strength of the case subsidiaries, the organisational initiatives adopted regarding the distribution systems began to reflect how they have been increasingly able to shape the inter-firm relations with the distributors.

This chapter is organised as follows. Firstly, section 6.2 provides an overview regarding the development of distribution systems in China. In contrast to being

dominated by state-owned sales agents in earlier decades, the distribution sector in China has evolved into diversified channels. Section 6.3 investigates how the case subsidiaries have managed their relations with their distributors, through partitioning the market into small areas coupled with introducing economic and social governance mechanisms. Section 6.4 further explores how the distributors got involved in the value-creating activities of the subsidiaries, i.e. setting the product portfolios and shaping the direction of product development by working closely with marketing staff. In addition, how the complementary resources of the case subsidiaries, such as logistics services and management information systems, were aligned with the relations with the distributors will be investigated in this section. Section 6.5 provides the concluding remarks on this chapter, together with the propositions generated from this aspect of investigation.

6.2 Selecting appropriate distributors responsible for market areas

6.2.1 Background and key functions that distributors carry out for brand marketers in China

Before the 1980s, the distribution sector of the Chinese market was dominated by state-owned commercial units and co-operatives in cities and rural areas, respectively (Luk, 1998). After the regulations on distribution channels were relaxed in the middle of the 1980s, the private sector gradually became the main players in the distribution business. Later on, with the opening up of the market as a result of joining the WTO in 2001, China became an attractive destination targeted by foreign investors in the retailing sectors and nowadays, its distribution sector has highly diversified features. Figure 6.1 displays the distribution systems of the electronics sector in the Chinese market, which consists of two main distribution modes: multiple-layer distributors and direct supply.

Under the system of multiple-layer distributors, brand marketers distribute products through a hierarchical distribution system. As shown in Figure 6.1, the first-

tier (or national level) distributors, such as Ingram Micro and Digital China¹⁸, distribute the products of brand marketers through their nationwide network, which comprises multiple layers of distributors in cities and towns. Being in the frontline of the markets, lower levels of distributors further distribute the products to outlets, shopping malls or stores on high streets. Therefore, in order to tap into the whole Chinese market in a short period of time, some brand marketers cooperate with national level distributors. However, in this way, brand marketers are unable to monitor closely the dynamics of each market area.

In contrast, the mode of direct supply is aimed at shortening the distance of distribution between brand marketers and consumers. By supplying products to the chain stores (e.g. Suning or Gome in electronics retailing) or chain retailers (e.g. Carrefour or Wal-Mart) directly, brand marketers get access to the market. However, the giant chain stores or retailers normally charge a variety of fees to brand marketers, such as the fee paid for putting products on shelves. These fees further become barriers which keep small start-ups from entering market. Hence, some brand marketers build up self-controlled stores, so as to avoid the obstacles to entering the market. Apart from these physical channels, there are emerging virtual channels, such as TV and on-line shopping, which are rapidly growing in China nowadays and by cooperating with these e-commerce service providers brand marketers are able to sell their products directly to customers.

¹⁸ Ingram Micro and Digital China are two leading national distributors in the Chinese electronics sector. The former is a world-class provider of distribution services and the latter was founded by a leading Chinese computer company with closer local connections.

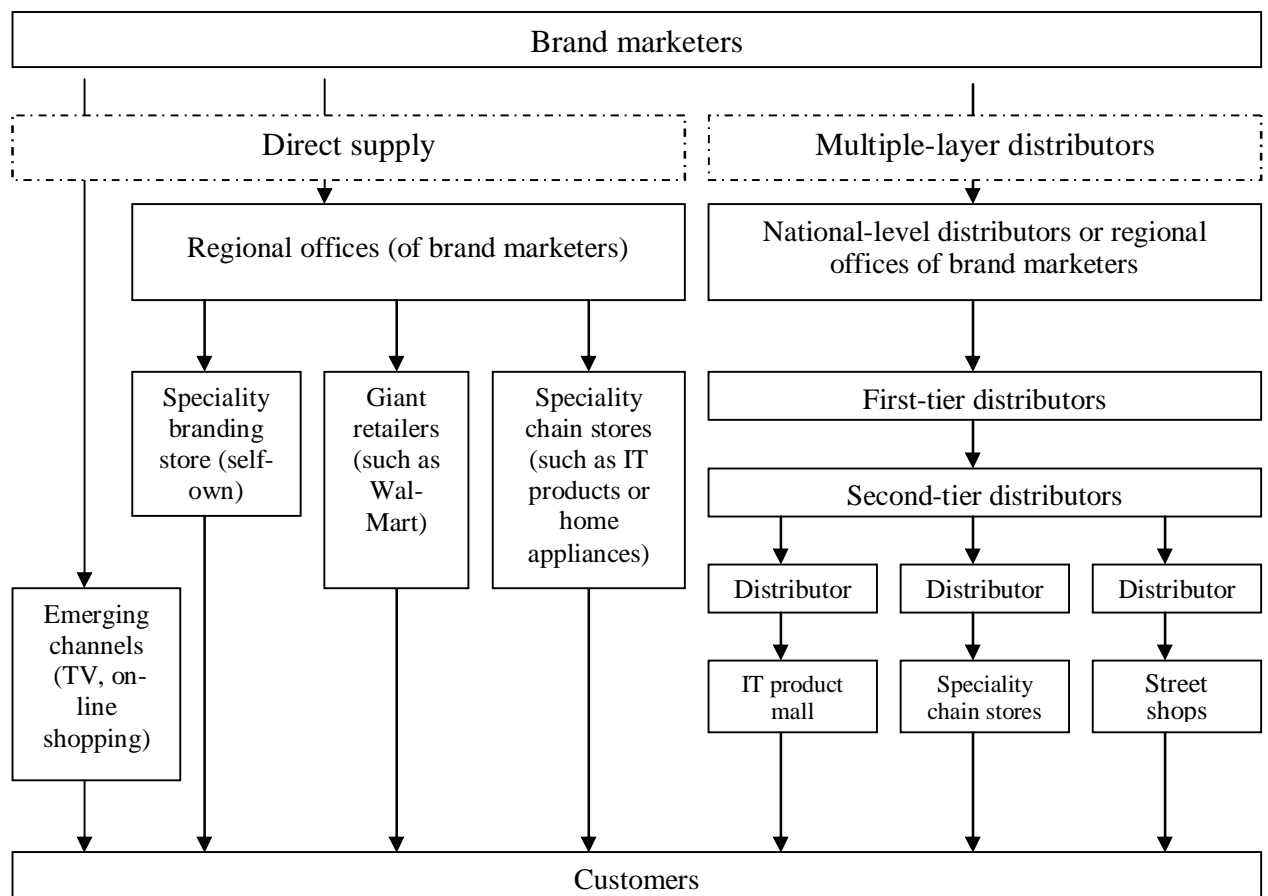


Figure 6.1 Distribution systems of the electronics sector in China

Although today brand marketers have higher accessibility to the Chinese market through diversified channels, distributors still function as the key actors in providing services to them, which reflects the features of the Chinese business environment. That is, given the massive size of the market and flexibility in making payments, building relations with distributors is fundamental to marketers effectively infiltrating into this emerging market. The following quotations show the crucial role played by distributors in the context of the case subsidiaries.

[One distributor of A-SUB] The reasons why A-SUB relies on the services provided by our company are as follows. Firstly, we provide the immediate services to the subordinated distributors in the market area, such as delivering A-SUB's products to those in villages. Secondly, we provide tailor-made services,

such as installing software in computers as requested by individual clients. Thirdly, A-SUB has to rely on us to manage the payments of distributors lower down the chain. It's difficult for A-SUB to cope with the flexible practices in relation to paying accounts in China. (*Book 1*, p.317-318)

Distributors are our most important partners for tapping into the Chinese market. They have not only operated the channels, but also share the same interests and reap the same benefits as us. (*Newsletter*, 45, 2006)

Another typical service provided by the distributors is that the brand marketers rely on them to take advantage their relations with the retailers or operators of shopping malls, so as to obtain optimum sales space in these outlets. That is, for MNEs, good relations with distributors are expected to help them overcome the liabilities of foreignness when they tap into a host market with a weak institutional framework.

Although nowadays leading chain retailers have become the dominant channels in China, such as GOME or SUNING in the electronics sector, we [B-SUB] still rely on our distributors to negotiate with these retailing giants. That is, although at first there are meetings of the top management teams [of B-SUB] and GOME or SUNING to reach a consensus for guiding the partnerships. Afterwards, the details have to be hammered out through negotiations between the distributors and regional offices of retailers. (informant B01)

Due to the complicated nature of distribution channels, brand marketers have relied on distributors to obtain good locations in the shopping malls. The relations between distributors and operators of shopping malls still matter. (informant B08)

Another instance regarding local knowledge held by distributors is the understanding of local market circumstances. Grounded in their long-lasting operation in the specific market areas, distributors, particularly the first-tier ones closely cooperating with brand marketers, have provided suggestions on setting product portfolios and product development for both case subsidiaries. These issues will be further explored in section 6.4.

The key criteria in choosing distributors is whether they have deep understanding of the market area or distribution channel, rather than considering their company size only. Our distributors are expected to have rich market information on one specific channel or shopping outlet. It would be better if they have insights into diversified types of distribution channels. (*Presentation made by informant B01 in 2012/11/7, Taipei*)

In essence, operating a market area is like an engineering science including intricate subsystems which have to be integrated, such as selecting product, setting price and making timely adjustments to respond to market changes. Our [key distributor of B-SUB in Xiamen City, Fujian Province] experiences of operating market are useful for setting up the product portfolio of B-SUB in Xiamen. In addition, frequently visiting shopping malls enables me [CEO of this distributor] to catch up with changing customer preferences. From our deep understanding of the local market and customers, which is grounded in long-term personal experiences, we can precisely identify market opportunities. That is, we choose the items suitable for Xiamen among the newly-launched products, and then promote them to different channels. (*Newsletter*, 49, 2007)

6.2.2 Partitioning market areas under carefully chosen relations

A few national-level distributors (e.g. Ingram Micro and Digital China) have provided distribution services for global marketers operating in the Chinese market. However, unlike the business practices pursued by global marketers, both case subsidiaries sought distributors to build up their own distribution systems in hierarchical manner. That is, under the first-tier distributor managing a large market (normally a big city), several second-tier distributors are responsible for the subordinated market areas (e.g. a district of a city) and more lower-tier distributors take charge of the town or village-level markets. Given the massive size of the Chinese market, in the beginning the case subsidiaries primarily maintained relations with the first-tier distributors, and then leveraged them so as to reach the in-depth markets. The main consideration for building a self-managed distribution system was to ensure that their products were effectively promoted throughout China.

In other mature markets [in developed economies], we can simply get services from national-level distributors, such as Synnex in Taiwan. That is, after

outsourcing to them, they operate the market services. However, we wanted to infiltrate deeper into the Chinese market, so we started approaching province-level and city-level distributors by ourselves. (informant A04)

Given that more profits are generated from higher sales volume, national-level distributors in China are likely to request the subordinated distributors to sell out of products as quickly as possible. Through merely focusing on the higher performance in sales volume, the in-depth market areas have been neglected by national-level distributors. (*Book 1*, p.326-7)

When A-SUB and B-SUB initially explored a new market area, their marketing staff searched for those distributors who had the potential for selling their products by frequently visiting all distributors in that area, or what is called “sweeping streets” (*Book 2*, p.229). In most cases, the marketing staff took and demonstrated their products in the offices of the distributors, but lacking well-known brand images, both case subsidiaries faced sceptical attitudes towards their products from the distributors. In order to dispel their doubts over the profitability of their products, the case subsidiaries invited them to visit their assembly lines (*Book 2*, p.226). Moreover, after explaining that they were manufacturing for global brand marketers, the distributors became much more positive about the business opportunities and thus considered joining their distribution networks.

From my personal experience of using the fan made by Beta, I noticed that its quality is better than other brand marketers’ products. After learning B-SUB’s manufacturing capabilities by visiting the factory in Shenzhen, I became one of the main distributors of Beta in Shenzhen city. (informant B08)

After making their products known among distributors, A-SUB and B-SUB cautiously selected those suitable from those showing an interest in being sales agents for their products. More specifically, both case subsidiaries not only reviewed their financial data and other performance criteria, but also found out about the personal characteristics of the distributors by contacting them in person. That is, the top management teams of A-SUB and B-SUB believed that only distributors holding a corresponding perspective on doing business to theirs would lead to sustainable cooperation ties (*Newsletter*, 38, 2004). In fact, A-SUB terminated its cooperation

with some distributors when it realised that their strategies for operating in the Chinese market not the same as theirs. (*Book 1*, p.174).

I [marketing manager] have to visit the potential distributors to confirm whether their thoughts with regards to operating in the market are similar to ours [A-SUB]. Interviewing distributors in person is critical for us to elicit whether the orientation of distributor is either short-term or long-term profit-seeking. (*Book 1*, p.196-197)

Selecting the appropriate distributors is the first lesson we learnt from operating in the Chinese market. If we chose irresponsible distributors, this would cause serious problems, such as account default and management issues. We ended cooperation ties with several distributors, because they could not follow our rules in distribution management. (informant B06)

For both case subsidiaries, the main principle of building up a distribution system in the Chinese market has been to choose one or a few distributors to be in charge of a specific market area, or adopting the rule of allocating the partitioned market areas to a few distributors. According to an interview with its marketing manager carried out in 2010, A-SUB played the role of distributor at the national-level itself, i.e. it directly contacted about 700 distributors covering 250 city-level markets. In addition, several regional offices¹⁹ were set up across the country for linking A-SUB and the city-level subordinated distributors in each region.

Similarly, B-SUB played the role of national-level distributor and managed about 300 distributors dispersed in multiple-level cities at the time of the interviews undertaken in 2010. Through this distribution network which in total controls over 10,000 sale points, B-SUB has been able to respond effectively to the rapidly changing the Chinese market.

Our principle for selecting distributors is 'looking for a few distributors handling one small area'. In one market area a few distributors might sell the same product items, but there is clear differentiation so as to maximise coverage in that location. In some cases, we also exclusively allocated one market area to a single distributor. (informant A01, 04)

¹⁹ The 'region' here refers to the sub-level unit of the domestic market in China, which consists of three or more provinces.

We are directly operating about 600 city-level distributors by ourselves. This kind of complete coverage of the market cannot be achieved by a national distributor, whose aim is to seek maxim the sales, rather than operating in the in-depth market. (informant A04)

The main purpose of exclusively selecting one or a few distributors to manage one specific market area has been to ensure that the market orders and distributors' profit-making are stable. Given that the distributors directly obtain their supply of products from A-SUB and B-SUB, they are able to get higher profits generating from the reduced layers of distribution. Moreover, they are not allowed to sell products out of their appointed areas, which also means that the distributors responsible for a particular market area get better profits than were it otherwise. As a result of these stable gains, the confidence of the distributors regarding the profitability of brand marketers' products has been strengthened.

Most of the leading brand marketers in the Chinese market outsource their sales to national-level distributors. For instance, the business of brand R in China is managed by three key distributors. As one DVD-Burner is sold, city-level distributors get a profit of 100-200 RMB from the national-level distributor. In our case, we provide a higher margin, over 300 RMB, to our distributors together with directly delivering the products to them. Subsequently, many city-level distributors changed to our system when they realised this difference. (*Book 1*, p.256)

In sum, A-SUB and B-SUB carefully established relations with distributors through partitioning the market into small areas with stable profit-making mechanisms for them. These inter-firm relations with distributors are considered as part of the newly-built capabilities so to overcome the resource deficiency in renowned brands.

The highly self-controlled distribution system has been a critical weapon to combat the world-class brand marketers in the Chinese market, or 'laying siege to the cities from the rural areas' in military terms. The cost advantages of our export business are going to be long-term so have had to grasp firmly the advantages associated with our strong distribution channels. (Informant A01)

6.3 The governance mechanisms of network relations with the distributors

With regards to the brand marketers-distributor relations, the two sides hold distinctive orientations for maintaining ties. For the former, achieving greater market share is their main target, whereas selling those products that can generate maximum profit is the main concern of the latter (Fein & Anderson, 1997). In some cases, distributors may not be willing to promote the products assigned by brand marketers due to the low expected profit. To address this situation, brand marketers inevitably have to establish governance mechanisms that encourage distributors to promote all of their products.

Here the practices which have been observed in manufacturers-supplier relations, economic and social mechanisms (Dong, et al., 2008; Dong, Tse, & Hung, 2010; Liu, Li, & Xue, 2010) are employed to explain how A-SUB and B-SUB have managed relations with their distributors. The economic mechanisms refer to the financial incentives adopted by brand marketers to encourage them to maximise their sales by guaranteeing them healthy profits, whilst the social mechanisms are the supportive resources provided by brand marketers, such as training programmes, to strengthen their distributors' marketing competences. The focus of study in this section, given the weakly-institutionalised distribution sector in the host environment, is how the case subsidiaries have used governance mechanisms to maintain effective relations with distributors, such as addressing opportunistic behaviour.

6.3.1 Economic mechanisms

For A-SUB and B-SUB, the main purpose for undertaking economic governance mechanisms has been to ensure that the distributors make profits from operating in the designated market areas so that market orders are stable over a long time period. As indicated before, for both case companies, each distributor has been appointed to operate a specific market area. However, in order to obtain higher profits some distributors might consider selling products outside of their allocated area at a lower price than the company appointed one for that location. This kind of opportunistic behaviour would seriously disturb the market order, i.e. triggering hostile price competition between distributors. Therefore, to restrain them from selling products

beyond the appointed market area, financial mechanisms were adopted by the case subsidiaries as a way of disciplining the distributor behaviours. That is, through guaranteeing high profit margins and the threat of penalties for non-compliance were used as encouraging and punishing measures, respectively, so that A-SUB and B-SUB could ensure a stable distribution system.

Reasonably allocating profit is the most important issue [in managing the relations with distributors]. Distributors follow the brand marketer's instructions only if profits are stably generated from the relations. (*Book 1*, p.264)

Regarding the financial incentives, sales rewards are a typical example. The general rule has been that the distributors who achieve high sales performance are rewarded. This system has been further used to encourage distributors to further explore the untapped town and village-level markets so as to elevate the level of market penetration.

We prefer cooperating with the smaller distributors because they are easier to manage under our control. However, we expect them to promote our products to the deeper markets in the surrounding areas, because this will ensure that management costs will not be too a big burden for them. That is, a distributor not only functions as the wholesaler but also takes charge of retailing business in the market area. (informant A04)

A-SUB has implemented price-protecting measures that involved setting the bottom price levels for our goods, which helped in securing the profits of our distributors. Encouraged by these economic incentives, distributors are willing to follow A-SUB's policies. (*Book 1*, p.326)

Apart from the financial incentive attached to sales amount, A-SUB and B-SUB undertook other measures to encourage distributors to follow their expectations regarding market operations. For instance, in order to get better liquidity of capital, B-SUB provided a fixed percentage refund to distributors, if they made payments earlier to the due dates.

B-SUB has undertaken various financial incentives aimed at strengthening their relations with distributors, such as rewards are offered if they: make payments before the due date, ask for earlier shipping [out of B-SUB] than the set time or

have no returned items at the end of the sales period. All rewards will be conveyed according to sales figures. (*Newsletter*, 49, 2007)

In addition to the incentives used to encourage sales, the case subsidiaries have also used economic mechanisms to regulate distributor behaviours. That is, according to the contract²⁰, they would face serious penalties if they breach the rules, such as selling products out of the appointed market area or claiming commission using faked sales figures. Moreover, in order to encourage the distributors to police closely the pricing practices of others working with B-SUB, rewards are offered to those who report any abnormal trading behaviours.

We promised what we [A-SUB] can support the distributors. Meanwhile, we also let distributors know what they are not allowed to do and the results when the rules are broken. The agreed rules must be strictly adhered to. (*Book 1*, p.285)

In sum, the various economic mechanisms adopted by A-SUB and B-SUB can be categorised into two types with different purposes. That is, some of them have been used to encourage sales, whereas others were adopted to regulate the behaviours of distributors.

6.3.2 Social mechanisms

Although the distributors hold local knowledge with access to specific market areas, not all of them possess clear understanding of the marketing concepts necessary for promoting products. In particular, when the regulations regarding market entry were relaxed by the Chinese government, plenty of private distributors emerged in the market, but many only passively sold the products offered by the brand marketers (Luk, 1998; Zhuang, Herndon, & Zhou, 2004). To address any competence deficiency of their distributors in marketing knowledge and related skills, both case subsidiaries provided resources to support their operations, such as organising training courses and providing a management advice service, thereby strengthening their marketing capabilities.

²⁰ The contracts between the case subsidiaries and the distributors include the instructions about payment, punishment for market invasion, incentives on shipping, market coverage (by area/channel), pricing rules, support for promotion, returned items arrangements and the buyout items reward.

In contrast to the economic mechanisms, which are conducted by brand marketers to manage the performance of each distributor, social mechanisms refer to more of a two-way exchange of knowledge between two sides. That is, on the one hand, distributors have learned about and emulated the management schemes adopted by A-SUB and B-SUB, whereas on the other hand, they have contributed information regarding market changes to both case subsidiaries.

The distributors duplicated our [A-SUB] management measures to make their operations efficient, for example, setting up job positions as product manager and holding weekly meetings. (*Book 1*, p.174)í Some distributors cooperating with us [A-SUB] suffered from a lack of management knowledge, especially regarding how to establish organisational cultures and having staff identifying with their company. A-SUB is an experienced company in these fields and so has been able to provide advice for them. (*Book 1*, p.286)

Moreover, by organising annual meetings with their distributors, A-SUB and B-SUB have been able to disseminate marketing knowledge and skills to the distributors so as to support their operations. In addition, at the meetings, marketing staff of the case subsidiaries demonstrate how to promote newly-launched products to consumers, i.e. describing their key features and giving promotion tips. Conversely, both case subsidiaries collect market information from their distributors at the meetings.

The distributors have learned how to manage a company through attending the annual meeting for distributors and thereby acquiring knowledge and skills conveyed by A-SUB. Meanwhile, at the meetings the business line managers of A-SUB listen to the distributors and collect ideas for improving the products. (*Book 1*, p.322)

Moreover, for the distributors, the knowledge received from A-SUB and B-SUB makes them more competitive than their rivals. In sum, owing to the high market volatility in China, most distributors face the issue of a high turnover of staff and the training programmes provided by both case subsidiaries have helped them establish management systems capable of addressing this problem (*Book 1*, p.320).

6.4 How the distributors get involved in the value-creating activities of the case subsidiaries

Different from the investigation on governance mechanisms, which focuses on how the cooperation ties between case subsidiaries and distributors have been maintained, this section seeks to capture how they have worked together so as to achieve host market-orientation. That is, it explores how the distributors have become involved in the value-creating activities of the case subsidiaries, focusing on three aspects: setting product portfolios, developing products and deploying complementary managerial resources for marketing activities.

6.4.1 Setting product portfolios

Unlike export-oriented subsidiaries, which simply follow clients' instructions regarding product development and production volume, host market oriented ones have to consider the conflicting opinions of their distributors regarding market demand. In order to respond effectively to the distinctive market demand in different places, the case subsidiaries have worked closely with the distributors to decide which product items are suitable to be promoted in a particular market area.

As indicated in section 6.3.2, the annual meetings for distributors are key occasions for the two different actors to exchange market information. In addition, the meetings have played a crucial role in the process of setting the product portfolio specific market areas. More specifically, at the meetings, A-SUB and B-SUB launch the new products which are expected to be put on the market in the coming sales season. After reviewing all the new products, the distributors place orders according to the individual conditions in the market areas they are managing. In addition, the case subsidiaries explain the key features of the newly-launched items and provide procurement suggestions. After collecting orders from the distributors, the case subsidiaries roughly know the level of demand for the new products and subsequently, are able to arrange an appropriate manufacturing plan. In practice, the meetings are held six months before the start of new sales season, i.e. the production volume for next summer's sales is decided before the end of the current year.

After the new products are launched at the annual meetings for distributors, the marketing department can estimate the production volume by collecting orders

from the distributors in different cities and provinces. They place the orders according to the each item's expected sales volume in that market area. (informant B01)

Apart from holding annual meetings aimed at introducing new products to their distributors, the case subsidiaries set up the product portfolio of each market area together with its distributors, which involves frequent contact. That is, under the procurement suggestions provided by the subsidiaries, the distributors can make changes in items and volume to meet the demand of their particular market. In the case of A-SUB, its sales managers were found to visit the distributors, on average, three to four days per week (informant A07). During these frequent visits, the sales managers not only provide assistance in logistical tasks regarding marketing, but also collect the orders placed by the distributors. For those distributors without huge space for storage, A-SUB helps them place orders, on average, two to three times per week.

Apart from providing the product catalogue, the marketing staff of [A-SUB's] regional office also provides advice on procurement to us. Under the guidelines of procurement [provided by A-SUB], we are allowed to make some changes so as to meet market demand. (informant A14)

6.4.2 Developing products

As explored in the previous chapter, the case subsidiaries have developed products based on market information collecting from multiple sources. The suggestions provided by the distributors based on their daily observations on market, are jointly evaluated by the case subsidiaries along with the results of market surveys and consultancy reports. Regarding A-SUB on how the distributors help shape the direction of product development, it launched a product in the Chinese market which original idea was from its distributors.

The original idea of developing this new product was suggested by our first-tier distributors. That is, we combined several devices we have sold to a set and then obtained higher margins. (informant A02)

Similarly, a small number of B-SUB's first-tier distributors were invited to a special session to give feedback about newly-developed products that they are seeing

for the first time prior to the commencement of the full annual meeting (informant B01).

However, it was also observed that the degree to which the case subsidiaries took up new ideas depended on the distributor's level of importance in the Chinese market. That is, those holding closer ties with case subsidiaries, namely the first-tier distributors, were permitted to be more involved in the value-creating activities of the subsidiary organisations than those further down the chain. Consequently, the inter-firm relations between the case subsidiaries and the first-tier distributors emerged as being more reciprocal than lower-tier ones, with a two-way exchange of information.

According to the sales volume, growth rate and other criteria, we categorise distributors to different tiers. We collect most of our market information from the first-tier distributors which hold greater strategic importance. By contrast, we request the lower-tier distributors to promote products as we expect, but relatively less collect market information from this group of distributors. Only a few first-tier distributors are invited to review the new products before they are launched. (informant B01)

After receiving suggestions from their distributors, the case subsidiaries evaluate the market opportunities of them by holding cross-department meetings and subsequently decide whether the projects are worth moving forward. However, the capabilities of effectively responding to market demand are dependent on resource deployment within the case companies, i.e. resources transferred from headquarters or other subsidiaries. In the case of A-SUB, it was found that its capabilities for product development have been limited given that A-HQ has dominated the whole production process. This feature is further reflected by the fact that whenever A-SUB has launched a new product, this is with minimal changes in product specifications owing to A-HQ, taking a global perspective. The issues regarding headquarters-subsidary relationships are explored in detail in the next chapter.

Given that we combine the existing peripheral products together like a set, rather than adapting specifications of them, we largely reduce the time in communicating with staff in headquarters. (informant A02)

6.4.3 Aligning the resource bases of the subsidiary to the inter-firm relations with the distributors

The shifts in market-orientation associated with new business domains requires market intelligence on an organisation wide scale (Kohli & Jaworski, 1990). Therefore, moving from the investigation on how the case subsidiaries set product portfolios and captured market demand through their ties with the distributors, this section explores how other managerial functions, e.g. financial management, logistics services and management information systems (MIS) have become aligned with the inter-firm relations with the distributors.

In order to avoid default by account receivables A-SUB delivers products to distributors only when it has received payment. That is, undertaking this financial initiative of *ōno trading by creditō* has enabled it to identify those distributors eager to promote its products in market areas. Moreover, by doing so, distributors have to place their orders cautiously, because the product items will become their inventory after the payments are paid (*Book 2*, p.236). In order to keep the inventory at a minimum level, the distributors place orders near to the planned sales season. As a consequence, A-SUB has to operate a tight delivery schedule that sends the precise number of the products to the distributors. To achieve this tough goal, it invested in its financial service and logistics systems. The interview records and archival data below show how the products of A-SUB were delivered to distributors on time.

We [A-SUB] dispatch the product items after the distributors made payment in full. Once we receive the payments, the products items must be delivered within 24 hours. It means an efficient and reliable logistics system is crucial for our operating in the Chinese market. This is why we established seven warehouses serving the whole market in China, and a big team, about 60 persons, managing the logistics services. (informant A01)

That is to say, we [A-SUB] have not only had to deal with marketing affairs when we decided to operate in the host market in China. We also had to adapt many managerial functions at the same time. For instance, we now guarantee that we deliver products to distributors/warehouses within 48 hours after we receive their payments. Given that we are managing the orders of 20 products, which are

placed by 700 distributors in 250 cities at the same time, a big team providing support is necessary for the smooth operation of this complicated system. (informant A04)

Accurate delivery has been a critical factor for operating effectively in the Chinese market. If A-SUB and B-SUB were unable to deliver products to distributors' warehouses on schedule, the cost caused by delays could be massive. During the interviews, the informants repeatedly stressed how huge costs would be generated if the delays were caused by them. Compared to the export market business with products normally being delivered by sea, A-SUB and B-SUB need to manage inland logistics services that ensure they deliver their products to distributors on time.

Given the limited storage space of distributors, we [A-SUB] have to arrange the logistic services accurately, otherwise the distributors can't replenish the shelves in time. That is, if this batch of products requires one week in transit, we must make sure we meet the seven days inventory condition of the distributor, because we need to manage the storage capacity very carefully. (*Book 1*, p.196)

We [distributors] negotiated with operators of shopping malls to acquire better space for displaying brand marketers' products. Normally before the beginning of the sales season, the detailed sales schedule of brand marketer is confirmed under the agreement made by us and the operators. The details include the number of product items that will be displayed, the length of promotion events and the space arrangements. If the products of the brand marketer do not arrive on time, massive penalties can be imposed. Firstly, the product portfolios displayed in the mall would have to be changed and the vacant sales space will be taken over by the products of rival brands. Secondly, the reputation of the brand marketer will be seriously ruined and future access to the mall jeopardised. Moreover, the brand marketer has to take the related expenditures coming along with the delay, such as double deliveries for the batch of products. (informant B09)

Apart from logistics services, the management information system is another vital function for the case subsidiaries operating in the Chinese market. That is, supported by MIS, intensive coordination between departments has effectively reduced the volume of management procedures and task times for the case subsidiaries. Externally, the MIS connecting regional branches and distributors has enabled them to react in a timely fashion to any market changes.

Before introducing the Enterprise Resource Planning (ERP) systems, staff in the sales division inquired about the progress of manufacturing and inventory condition only through fact-to-face contact or phoning up. Delays in deliveries frequently occurred due to inefficient communications. Now the ERP systems have been put in place, staff in the sales division can inquire about data at anytime and hence, maintain good trusting relations with the clients. By searching for a code specific for one order, sales staff can check the detailed information, such as the production progress of this order. Since September 2010, we can gather immediate information about: sales amounts, orders, stocks, and warnings of abnormal figures, through the internal MIS platforms. (*Newsletter*, 59, 2010)

Our success in operating in the Chinese market is largely down to the IT system. We [A-SUB] built up the internal information platforms to connect distributors dispersed in different places. In addition, we set up our own logistics service system to support the sales activities in the Chinese market. (informant A02)

On the other hand, the MIS has functioned as the key platform for the case subsidiaries to govern their relations with distributors in China. The news stories about B-SUB provided evidence indicating the importance of MIS in distribution management practices, as explained “Given the limited trust within inter-firm relations in China, we have to rely on MIS, e.g. the Customer Relationship Management (CRM) system, to control precisely management flows and then efficiently manage the whole distribution system” (*United Daily News*, 2012/4/27). Therefore, it is concluded that the rules-based mechanisms have been dominant for case subsidiaries governing their relations with distributors, rather than relations-based ones.

6.5 Recent development of the inter-firm network relations with distributors (or the evolutionary process of network relations)

A-SUB and B-SUB have tapped into the Chinese market since 1997 and 1993, respectively. At the inception, given the lack of direct contact with consumers, both case subsidiaries highly relied on their distributors to access the host market. Afterwards, with the growing strength of their brands among the Chinese consumers,

they were able to leverage this to gain greater bargaining power within inter-firm relations with distributors and hence were able to drive the two initiatives discussed in the following subsections. Subsection 6.5.1 focuses on how the case subsidiaries now put pressure on the distributors to penetrate further the in-depth market areas. Next, subsection 6.5.2 investigates the joint venture projects that have taken place between B-SUB and its key distributors.

6.5.1 Exploring the untapped markets by further partitioning market areas

Given the lack of understanding of local market conditions, at first, A-SUB and B-SUB were short of bargaining power regarding their inter-firm relations with their distributors. That is, both case subsidiaries were more likely to follow the management measures adopted by the distributors. However, with increasing brand strengths and direct contact with consumers, they subsequently held the clout to shape the distribution system to meet their expectations. For instance, in some provinces the business of the case subsidiaries was initially managed by a single distributor. Limited by the distributor's market coverage, the sales activities might not reach some lower-tier city and town markets. So when they became more powerful, in some cases A-SUB and B-SUB contacted additional distributors and requested them to explore the untapped areas of the market.

We [A-SUB] have adopted flexible strategies to manage the relations with the distributors. For instance, we will seek another distributor if the extant distributor managing the market area has developed to high a degree of dominance. By doing so, we are able to ensure that a particular distributor does not become so powerful that we are unable to control its market behaviour. This has only been possible because of the increase in our brand strength. (informant A04)

Apart from expanding the market coverage of their products, both case subsidiaries have reduced the length of distribution, which means delivering their products to the bottom of market by having fewer layers of distributors. The term 'digging the channels' was frequently used by the informants to represent this strategic initiative. By directly approaching the distributors in lower-tier cities or towns, rather than going through the traditional multiple-level distributors, A-SUB

and B-SUB have cut the cost of managing the distribution systems. In addition, the complementary services such as warehouse and logistics have been extended to these market areas.

In the provinces we could not find distributors exclusively managing our business, we needed to sell our products through the traditional distribution system consisting multiple-level distributors. By doing so, the delivery cost between warehouses of distributors is high. If each transfer takes one week, the whole delivery requires three weeks or more in transit. If we can directly deliver our products to the lower-tier distributors, the time and cost of delivery will be significantly shortened. (informant A04)

If we can deliver products to the lower-tier city or town markets, the reduced layers of distribution channels not only enable us to have direct contact with more consumers, but also bring more profits for the distributors responsible for these market areas. (informant B08)

With the greater bargaining powers held by case subsidiaries, those distributors lacking the competences to follow A-SUB and B-SUB's expansion strategies could be replaced by the newly-added ones. Therefore, they have come under pressure to make sure that they are able to provide services to the bottom of market. In sum, the structure of the distribution systems has been gradually aligned with the market dynamics of the case subsidiaries.

The distribution sector of the Chinese market has shown some major changes in recent years. Firstly, the distributors have got bigger by merging and through acquisitions. Secondly, the market orders have been dominated by fewer distributors. Thirdly, the types of channels have diversified, such as the fast emerging on-line shopping. Lastly, brand marketers have approached the markets of lower-tier cities. With the increasing number of end channels under their management, leading distributors have to be more competent in logistics and delivery. That is, if they retain the cooperation ties with us, then they need to ensure they have sufficient capital and the relevant capabilities. (informant B09)

Moreover, with the case subsidiaries' growing reputation for business in the Chinese market, it was observed that there is now closer financial cooperation between them and their distributors. That is, B-SUB functions as financial platform to

help some key distributors get loans from banks through jointly sharing risk (informant B01). However, this kind of alignment between the managerial functions of the case subsidiaries and the distributors has only occurred for the first-tier distributors.

6.5.2 Internalising distributors by initiating joint ventures

Another change in the relations between the case subsidiaries and distributors is the joint venture projects launched by them. Regarding B-SUB, it established three provincial branches after proposing joint venture projects with first-tier distributors in 2007 (informant B01). This is a notable strategy showing that it has been trying to internalise its relations with its key distributors, rather than keeping them at arms-length. Similarly, A-SUB has considered establishing regional sales companies with its key distributors in a joint venture mode, but has not, as yet, managed to identify suitable ones for this.

In sum, as shown in Figure 6.2 and 6.3, compared to the relatively simple inter-firm relations between the case subsidiaries and distributors during the initial stages, it has emerged that increased numbers of managerial functions have become aligned with the evolved distribution networks. Moreover, the case subsidiaries undertook initiatives proactively to push their distributors further to explore the lower-tier city or town markets, and internalised some of the first-tier ones through establishing joint venture projects with them. If they failed to comply with the conditions set by the subsidiaries then they would be replaced by the newly-added distributors.

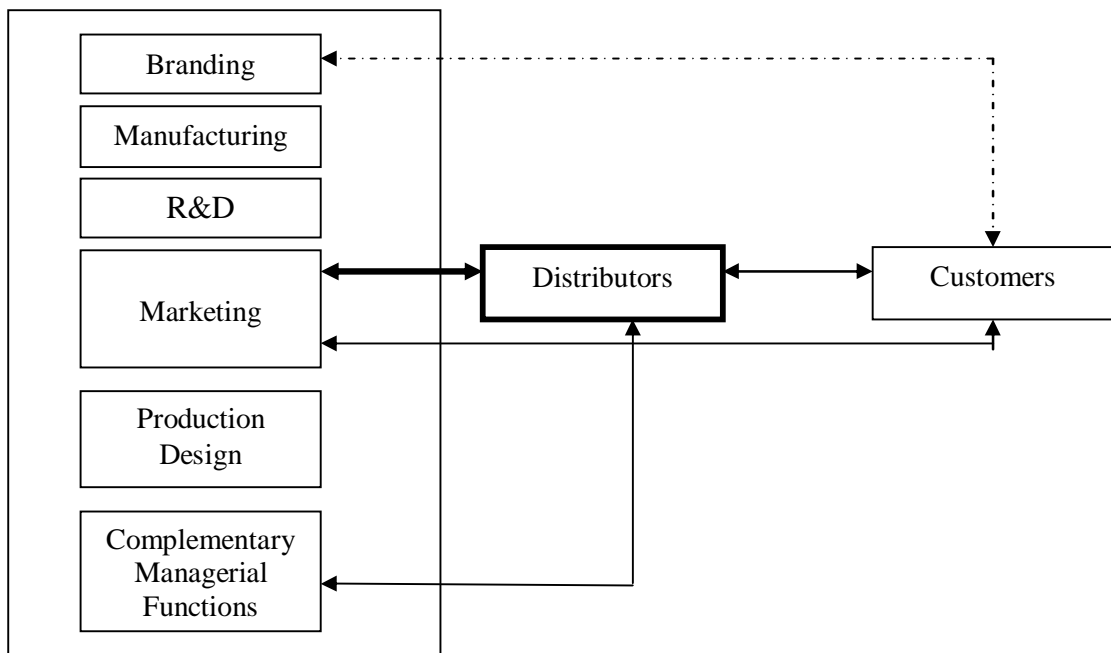


Figure 6.2 Network relations with distributors: Stage I

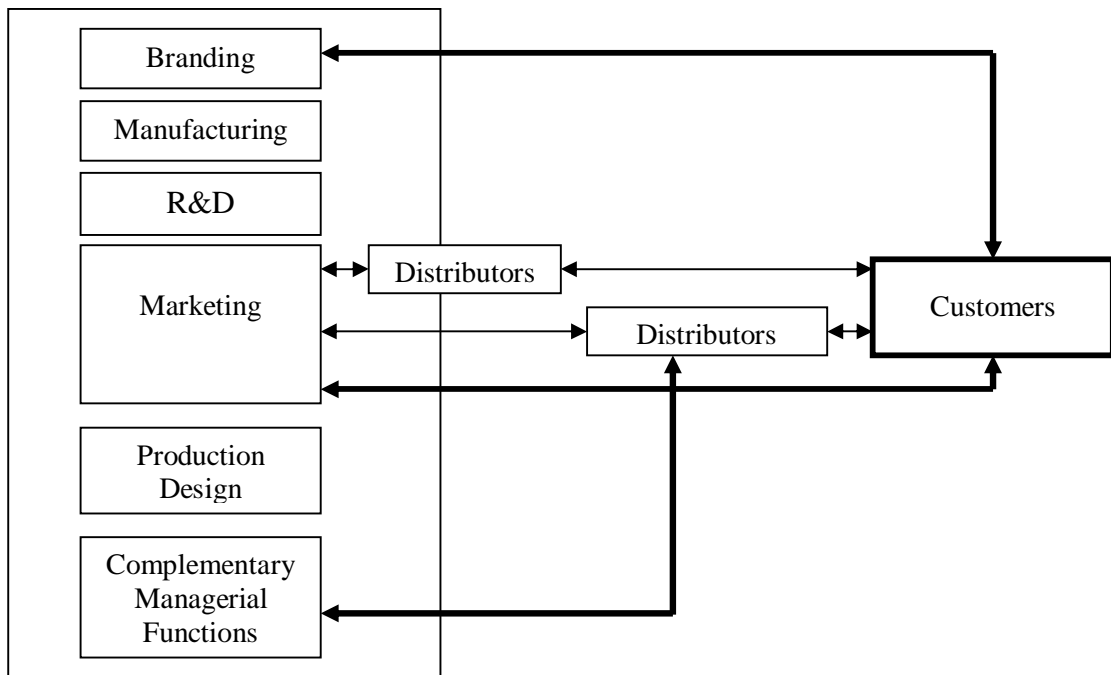


Figure 6.3 Network relations with distributors: Stage II

6.6 Concluding remarks and discussion

6.6.1 A summary of case illustration

Extending the investigation on the internal organisational initiatives in chapter 5, in this chapter an external perspective has been taken to explore the inter-firm relations between the case subsidiaries and distributors. After a brief introduction regarding the distribution sector in China, how A-SUB and B-SUB searched for suitable distributors and adopted mechanisms governing the relations with this group of agents has been captured. In addition, how the distributors became involved in the value-creating activities of the case subsidiaries was elicited. In relation to this, setting the product portfolio and shaping the direction of product development were the two prime organisational initiatives observed from the case illustration. The empirical data regarding how the case subsidiaries managed their inter-firm relations with the distributors are displayed in table 6.1.

Table 6.1 Summary of the within and across-case analysis

Initiative	Actions / Organisational Practices	Evidence-Alpha	Evidence-Beta
Selecting and governing the relations with distributors	<ul style="list-style-type: none">• Highly self-managed distribution channels that do not rely on national distributors• Selecting exclusive distributors in a bounded area	<ul style="list-style-type: none">• Directly contacting about 700 distributors covering 250 city-level markets (2006)• Exploring the emerging types of distribution channels	<ul style="list-style-type: none">• Directly contacting about 300 distributors, which in total controlled over 10,000 sale points (2010)• Exploring the emerging types of distribution channels
	<ul style="list-style-type: none">• Adopting economic and social governance mechanisms	<ul style="list-style-type: none">• Various financial incentives and supportive mechanisms	<ul style="list-style-type: none">• Various financial incentives and supportive mechanisms

Initiative	Actions / Organisational Practices	Evidence-Alpha	Evidence-Beta
Interactions between the distributors and the subsidiary value-creation activities	<ul style="list-style-type: none"> Contributing their observations about market changes for brand marketers 	<ul style="list-style-type: none"> Alpha followed the suggestions from distributors and initiated one Chinese market-specific product Key distributors are expected to provide feedback on the prototypes of new products 	<ul style="list-style-type: none"> Key distributors are expected to provide feedback on the prototypes of new products
The evolution of inter-firm relations	<ul style="list-style-type: none"> Case subsidiaries coming to hold the upper hand in the inter-firm relations with the distributors in contrast to during the initial stage 	<ul style="list-style-type: none"> Putting pressure on the distributors to penetrate the in-depth market 	<ul style="list-style-type: none"> Putting pressure on the distributors to penetrate the in-depth market Initiating JVs with the key distributors

Featuring as EMNEs facing double liabilities when they tapped into the host market in China, namely the liabilities of emergingness (Madhok & Keyhani, 2012) and foreignness (Zaheer, 1995), the characteristics of the strategies adopted by the case subsidiaries in managing inter-firm relations with their distributors have been identified. In general, these initiatives as summarised as follows.

Firstly, at the inception of penetrating into the Chinese market, A-SUB and B-SUB leveraged their historical contract manufacturing-based resources to build up the cooperation ties with their distributors. In this respect, through visiting the production lines manufacturing products for global brand marketers, the distributors became more convinced about the quality of the products made by the case subsidiaries. That is, recognising the profit-making potential of the products, many of the distributors approached were willing to become sales agents for the case subsidiaries in different areas of the Chinese market. Thus it can be seen that the value of the historical resources were further leveraged through this building up of the relations with the distributors.

Secondly, under the principle of holding the role of national-level distributor by themselves, A-SUB and B-SUB arranged one or a few distributors to manage each market area exclusively (normally at the city-level). Moreover, by employing economic and social mechanisms to govern their relations with the distributors, the case subsidiaries not only ensured the profitability of distributors cooperating with them, but also restrained any of the opportunistic behaviours. Consequently, the case subsidiaries were able to stabilise their distribution system when operating in the Chinese market.

Thirdly, in relation to the practices regarding setting the product portfolios and direction of product development, it was found that the distributors gradually have become more involved into the value-creating activities of subsidiaries. In particular, the first-tier distributors have come to work closely with the subsidiaries, e.g. being invited to provide feedback on newly-launched products, and nowadays have relatively greater autonomy in setting the product portfolios for their market areas than the lower-tier distributors.

Fourthly, as A-SUB and B-SUB increased their brand strength and had more direct contact with consumers, they gained more bargaining power that meant they could shape their inter-firm relations with the distributors. This has led to them being able to put pressure on the existing distributors by searching additional distributors to jointly manage the market areas. This practice forces the former to follow the case subsidiaries' strategies, such as exploring the untapped market. In other words, now the case subsidiaries hold the dominant role within the inter-firm relations with the distributors in contrast to during the initial stages. Even for the first-tier distributors who hold more two-way exchange of market information with the case subsidiaries, the latter have retained their authorities in managing the order of distribution sector. Namely, the reciprocal nature of inter-firm relations has not commonly been observed in the context of this study.

In sum, regarding the aspects investigated above, it is concluded that the major feature of the case subsidiaries' management of inter-firm relations with the distributors has been to ensure that they were managed in a stable manner by avoiding possible risks. The main purpose of employing economic and social governance mechanisms has been to increase the gain of the distributors and threaten them with

sanctions if they breach the rules. In other words, delivering foreseeable profit with high cost as punishing mechanism, so as to ensure a stable distribution system are the forces that have underpinned the cooperation ties. Thus it can be seen that a performance-based evaluation system has been fundamental to the inter-firm relations between the case subsidiaries and distributors, rather than a relationship merely based on trust.

However, with the passage of time, greater trust was conveyed on the first-tier distributors than those lower down the distribution hierarchy, with their being allowed to have input on such matters as new product development as well as being able to have control over the product portfolio for their market segment. It also emerged that the managerial functions of the case subsidiaries, complementary to the distribution business, e.g. the financial services, logistics services and management information systems, have now been aligned with the relations with the distributors. This practice demonstrates that taking organisational initiatives on resource bases is critical for organisations when forging relations with external actors. That is, the host market-seeking transformation requires taking cross-functional initiatives, rather than the marketing staff solely maintaining the cooperation ties. Figure 6.4 visualises the analysis outcome regarding inter-firm relations between the case subsidiaries and distributors.

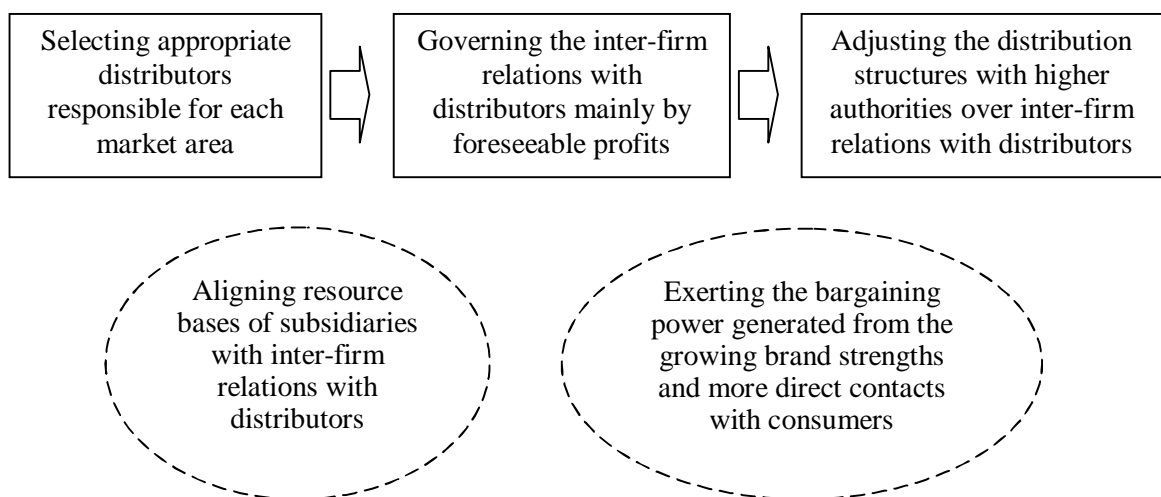


Figure 6.4 Analysis outcomes regarding subsidiary transformation for the aspect of inter-firm relations with the distributors

6.6.2 Discussion with the propositions raised from the case studies

Identified as the external linkages critical for accessing the host market, the relations with the distributors were newly-built by the case subsidiaries when they commenced operating the host market in China. In general, it was observed that providing foreseeable stable profits to distributors has been the core driving force underlying the inter-firm relations between the case subsidiaries and their distributors. That is, stimulated by the governance mechanisms with clearly-delineated market areas designated to them, the distributors promoted the products of the case subsidiaries, because they were guaranteed profits from their particular area. In contrast to the profits which functioned as financial incentives, severe penalties were used to restrain them from opportunistic behaviours, which helped to regulate the market order. In addition, right from the start the case subsidiaries undertook social governance mechanisms, e.g. providing training programmes to the distributors to raise their marketing competences so they could then benefit from greater sales performance.

Therefore, it is concluded that the case subsidiaries' governance mechanisms over the distribution system were predominantly rules-based inter-firm relations (Peng, 2003) grounded in distributor performance. By contrast, the relations-based trust was relatively rarely observed within the corporation ties. However, with the passage of time, the inter-firm relations between the case subsidiaries and different tiers of distributors diverged. That is, through being invited to give feedback on the newly-launched products, the first-tier distributors became deeply involved in the value-creating process of the case subsidiaries. In addition, these distributors set up the product portfolios of market areas together with the case subsidiaries, rather than passively following the instructions on procurement provided by them.

The matrix indicated by Teece (1986) can be employed to explain the inter-firm relations in the context of companies investing in the emerging economies holding institutional voids (Khanna, et al., 2005). Originally designed for explaining how enterprises profit from technological innovation, this matrix is structured by two dimensions: appropriability regime and complementary assets (Teece, 1986). In the Chinese market, it has emerged that effective distribution systems have been a critical complementary resource for foreign investors tapping into the local market. Therefore,

given that A-SUB and B-SUB faced severe competition among global marketers when building up cooperation ties with the local distributors, they can be positioned in the quadrant of weak appropriability coupled with high importance of complementary assets.

Drawing on the work of Teece (1986), the relations between the focal companies and holders of complementary resources could either be of a contract nature or integrative mode, which depends on the competitive status they hold among rivals. That is, the firms which hold more competitive positions than their rivals are able to adopt an integrative mode to secure the relations with the complementary resources. However, for firms without advantageous positions, such as A-SUB and B-SUB when they tapped into the Chinese market, signing contracts with the holders of complementary resources, i.e. the distributors, was the only option. That is, constrained by their weak positions among their rivals, the main function of these contracts was to reduce their exposure to the risks. However, given that the contracts signed with distributors were not powerful in providing protection, A-SUB and B-SUB adopted partitioned and carefully chosen strategies to select distributors in charge of specific market areas so as to minimise the related risks. Moreover, the use of performance-based governance mechanisms was expected to secure the case subsidiaries' cooperation ties with their distributors through ensured stable profits.

Moreover, it was elicited that the inter-firm relations between the case subsidiaries and distributors had an evolutionary nature. That is, at the inception of tapping into the Chinese market, due to the lack of local marketing competences and knowledge, the case subsidiaries had to rely highly on their distributors to get access to the local market. Later on, supported by growing brand strength and more direct contact with end consumers, they garnered more bargaining powers and hence were able to shape the distribution system. That is, they put pressure on the distributors to explore the untapped lower-tier city or town markets subordinated to the market areas, with the threat of being passed over as distributors if they did not comply. In some cases, they strategically invited additional distributors to operate the market area, which put even more pressure on the original ones. In addition, the joint venture projects recently initiated by the case subsidiaries together with the key distributors imply that they are attempting to secure these critical resources, i.e. distributors, by

undertaking an internalisation strategy. With this increasing engagement with the major distributors, A-SUB and B-SUB have become closer to the markets of lower-tier cities and towns.

In sum, given that host market-orientation has been strongly grounded in the cooperation ties with local distributors, closer ties with distributors were an expected phenomenon resulting from the subsidiary transformation towards the host market. Furthermore, this study has demonstrated how the focal firms managed this situation by setting up governance mechanisms in accordance with their resource circumstances. That is, given the shortage of marketing resources to secure the critical complementary resources necessary for operating in the host market, i.e. distribution sector, the case subsidiaries strengthened relations with their distributors by providing stable and foreseeable profits for them. This concern also illustrates the case subsidiaries' perception of their being vulnerable within the inter-firm relations. Consequently, the third proposition is raised as follows pertaining to the relations between the resource circumstances of case subsidiaries and their predominant use of economic governance mechanisms.

Proposition 3: The fewer marketing resources that EMNE subsidiaries hold, the more likely they are to use mechanisms aimed at providing stable profitability for their distributors.

In addition, it has been observed that although the case subsidiaries now hold greater brand strengths and more direct contact with consumers as well as having greater competitive status with their rivals through possessing better complementary resources (Teece, 1986), they have opted to retain a high level of authority over their inter-firm relations with distributors. That is, the case subsidiaries are still pressurising their distributors to explore further the untapped lower-tier city and town market through seeking additional distributors to manage jointly the market areas. However, although they have tried to control the development of the distribution sector, they have encouraged some of the distributors, especially the first tier ones, to become involved in their marketing strategies to some extent. Given the bounded relational dependability (Verbeke & Greidanus, 2009) in the context of operating host market business in emerging economies, it would appear that the subsidiaries of

EMNEs tend to hold high authority over their cooperation ties with external actors and this leads to the following proposition.

Proposition 4: The greater risk of doing business in the host market, the more likely subsidiaries of EMNEs seek to retain a high level of authority over inter-firm relations with their distributors.

The organisational initiatives undertaken by the case subsidiaries in relation to the inter-firm relations with distributors are displayed in Figure 6.5 with the propositions put forward in this chapter. Future research should focus on identifying whether the type of MNEs, i.e. MNEs from developed economies or EMNEs, really has an effect on shaping the practices regarding managing the distribution sector when exploring and exploiting emerging markets. For instance, there could be investigation involving comparison of the distribution strategies adopted by global brand marketers for tapping into the Chinese market with those observed for the case companies in this study.

In addition, with regard to the dynamic capabilities, the term cooperative capability (Subramanian, Chai, & Mu, 2011) has been used to refer to acquiring resources from inter-firm relations with external actors as well as intra-firm resource allocation, especially in the case of A-SUB. In the case of inter-firm relations with the distributors, this external aspect of dynamic capabilities performs a complementary role to the internal initiatives of capability leverage and capability building.

Focusing on the subsidiary domain, chapters 5 and 6 have explored the resource reconfiguration process from the internal and network perspectives, respectively. As components of MNE organisations, any investigation into subsidiary transformation has to be considered in relation to the organisation as a whole. Therefore, in the next chapter the headquarters-subsidiary relationships in the context of resource deployment are probed for the two case companies.

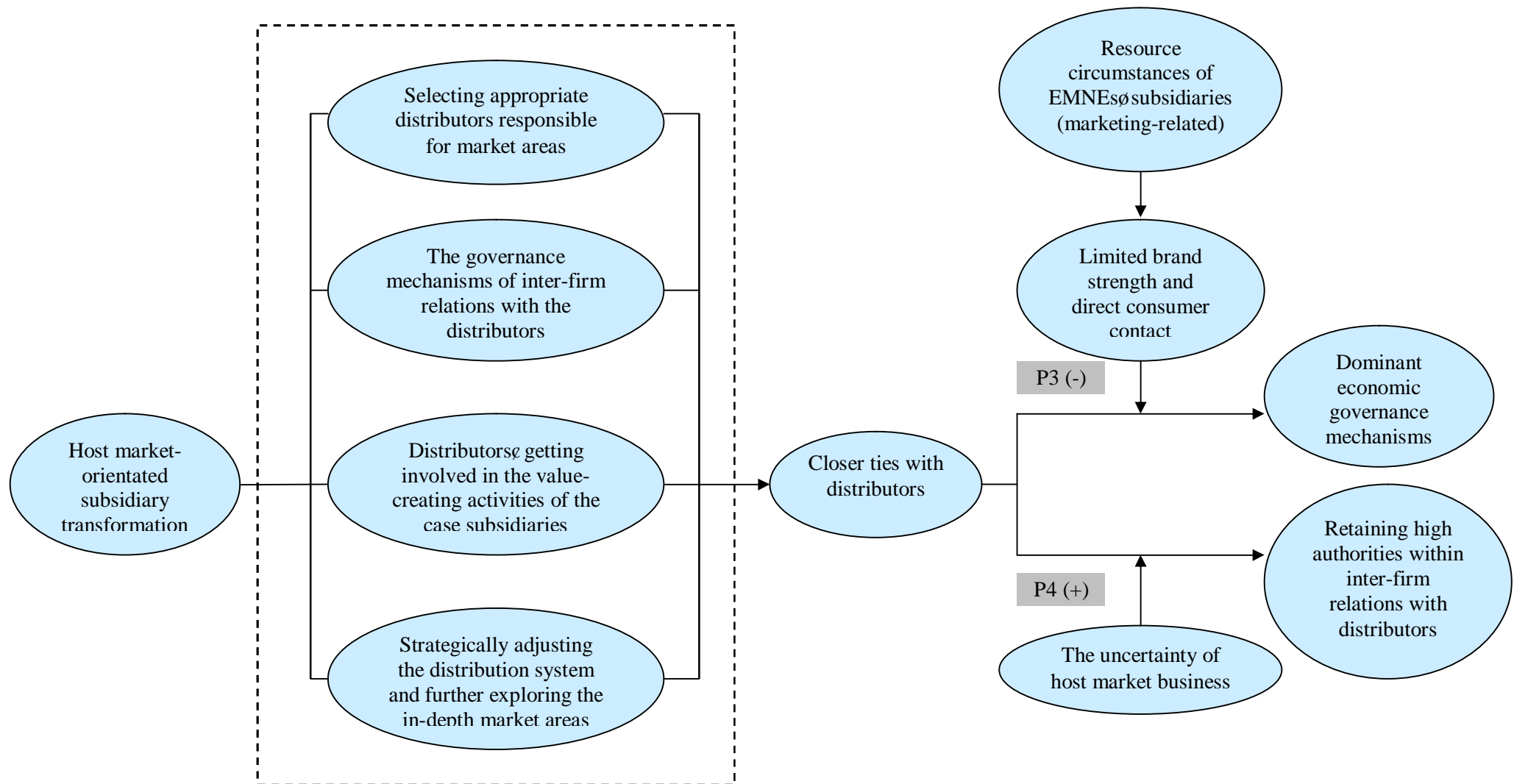


Figure 6.5 The organisational initiatives and propositions regarding subsidiary transformation for the aspect of inter-firm relations with distributors

Chapter summary

This chapter has focused on the inter-firm relations between the subsidiaries and the distributors, investigating how relations were established, maintained and evolved. As the gatekeepers to the host market during the initial stages of the former entering it, the latter held significant power. After selecting suitable distributors to manage the specific market areas and introducing governance mechanisms, A-SUB and B-SUB were able to stabilise the market order, in particular with regards to pricing. That is, the economic and social mechanisms were implemented to encourage and support distributors' sales, respectively. As the business in the host country grew, the resource bases of the case subsidiaries became aligned with the inter-firm relations with the distributors. Moreover, it was observed that a comprehensive range of managerial functions of the subsidiaries were reconfigured to be in line with the operation of the host market, including: product development, financial services, logistics services and MIS. Lastly, from an evolutionary perspective this chapter has explored the recent changes in the distribution systems of the case subsidiaries, including further exploring untapped parts of the market and initiating joint venture projects with their key distributors.

Theoretically, the findings of this study advance understanding on how MNEs employ mechanisms to govern their inter-firm relations in the context of doing business in an emerging economy from the view of network position. That is, beyond the whole distribution system being predominantly driven by foreseeable profit, or the use of economic governance mechanisms based on the performance of distributors, the first-tier distributors have been observed as holding more relations-based interactions with the case subsidiaries. In addition, it has also emerged that these firms have retained a high level of authority over their ties with their distributors so as to further explore the bottom of the host market.

Chapter 7 Headquarters-subsidary relationships

7.1 Introduction

This chapter explores the resource deployment between headquarters and subsidiaries as the latter switched their strategic positioning from an export-orientation to a host market oriented one. In the context of contract manufacturing, export-oriented subsidiaries mainly follow instructions from headquarters, such as fulfilling the expectations of clients in manufacturing quality and ensuring accurate delivery. In order to ensure these goals, subsidiaries receive resources from headquarters to elevate their manufacturing capacities together with acquiring human resources and materials from the host country.

By contrast, given that headquarters have limited understanding of the market conditions in the host country, subsidiaries faced with complicated resource deployment when they tap into the host market. That is, if they solely follow the instructions from headquarters, they cannot effectively accommodate for the changing demand of the host market. Nevertheless, they still require headquarters transferring complementary resources unavailable in the host country, such as technological ones, to them, but the challenge is to ensure that these resources are the most appropriate. The concept of multiple embeddedness in which MNEs are situated (Forsgren, et al., 2005; Meyer, et al., 2011) is adopted in this chapter to investigate the nature of the resource deployment in the two case companies after they decided to exploit the host market of China.

The extant literature on embeddedness of MNEs has suggested that high levels of external embeddedness being developed by subsidiaries is likely to lead to headquarters' reluctance to deploy resources to support subsidiaries, what has been termed reserved internal embeddedness (Ambos, et al., 2011; Chang & Rosenzweig, 2009; Chen, et al., 2012). However, most of the existing studies regarding intra-organisational flows of resource within MNEs have focused on the homogenous types and have neglected the heterogenic interconnectedness between the different managerial resources. Taking the perspective of resource complementarity (Helfat, 1997), the aim in this chapter is to make a contribution to the literature on whether

EMNEs holding limited experience in internationalisation allocate the necessary resources to their subsidiaries for them to operate at an optimal level and if so, how this is done.

Two distinct patterns of resource deployment between headquarters and subsidiaries have been observed for the case companies. Facing a gap between headquarters-controlled product development and the demands of the host market, Alpha has adopted initiatives to raise the local responsiveness of A-SUB. For instance, the subsidiary-level product technology centre was recently established in Suzhou so as to broaden the range of products that A-SUB can provide to local consumers. By contrast, it has emerged that B-SUB has been gradually equipped with most of managerial functions and then its importance has increasingly grown within Beta. The term 'migrating headquarters', novel to international business literature, is coined here to refer to this phenomenon regarding the role of headquarters being replaced by a powerful subsidiary.

This chapter is organised as follows. Section 7.2 investigates the cross-border management initiatives adopted by the case companies after they began to operate in the host market in China. The concept of the reverse transfer of resources (Ambos, et al., 2006; Yang, et al., 2008) guides section 7.3 and pertains to the situation that one subsidiary increased its importance in the MNE as a whole. Moreover, this section also explores how the roles of headquarters and the home country, Taiwan, have been transformed. Lastly, section 7.4 includes the concluding remarks, discussion and the propositions raised from this aspect of investigation.

7.2 Cross-border management initiatives responding to the host market-seeking oriented transformation of a subsidiary

7.2.1 Organisational setting between headquarters and the subsidiary

Cross-border management refers to how managerial resources are deployed between subsidiaries and headquarters to fulfil the strategic intentions of MNEs (Bartlett & Ghoshal, 1998). As discussed in the previous two chapters, in order to address the resource gap derived from the shift to a host market-seeking oriented transformation

by a subsidiary, A-SUB and B-SUB built up marketing departments together with newly-built relations with their distributors. This section focuses on how the case subsidiaries acquired the complementary resources for their operations in the host country.

Among the managerial resources of MNEs, marketing ones have been identified as retaining global and localised features at the same time (Bartlett & Ghoshal, 1998). A typical global feature of marketing is a company's brand, which is consistently promoted in foreign countries, whilst the local aspect refers to the marketing capabilities for operating the host markets, such as building up sales teams and searching for suitable distributors. By contrast, the product-related managerial functions have been regarded as resources traditionally held by headquarters, i.e. product development, R&D and so on. Given that both case subsidiaries transformed their orientation to the host market business, redeploying the headquarters-controlled resources complementary to their marketing activities to A-SUB and B-SUB has been a critical issue.

In practice, Alpha established multiple-level product managers (PMs) in A-HQ and A-SUB to manage the communications between the two (as shown as figure 7.1). In A-HQ, the head of the 'technology product centre' is the chief administrator managing all product items and the products are further categorised into different 'business divisions', e.g. monitors and projectors are managed by the 'display business division', with the 'business unit' head (BU head) within this being responsible for the operation in relation to a single product item. The feedback collected from the subsidiaries in the different regional markets²¹ has facilitated BU heads in headquarters to set up the direction of the product plan (informant A13).

²¹ Alpha has divided the global market into five regional markets: Europe, US, Latin America, Asia-Pacific and China.

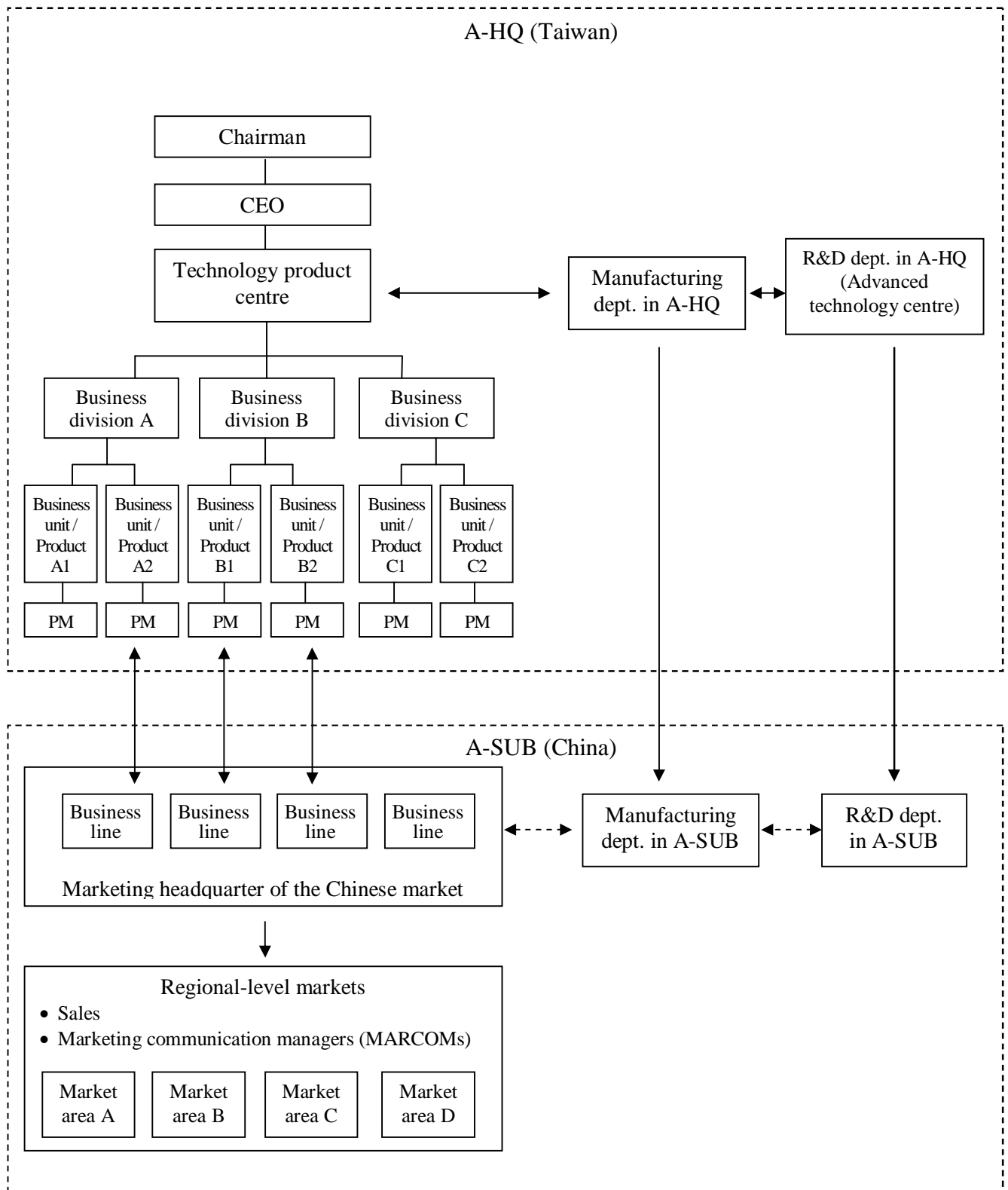


Figure 7.1 The Headquarters-subsidary relationships of Alpha (before 2007)

Similarly, as figure 7.1 displays, two levels of PMs were established in the marketing department of A-SUB (A-SUB-MKT), öbusiness line managers (BLMs)ö and PMs, for managing the products in the host country²². That is, each BLM is responsible for a single product item, such as monitors, and they have played a critical role in facilitating communications within Alpha. That is, they are responsible for connecting HQ-level PMs with the subsidiary-level PMs managing the province/city-level market areas in China. After evaluating the demand in the host country, the current state of the distribution sector, and product development, led by A-HQ, the BLMs are tasked with drawing up the product plan for operating in the host market in China. Under them, the PMs who manage the city-level market areas function as representatives of A-SUB managing the relations with distributors.

Alpha has been a PM-driven company. We set up positions as PMs across different levels, from headquarters-level to subsidiary-level, and those working in the regional branches in China are responsible for the subordinated market areas. All PMs are requested to understand the features of products which they are handling. Those PMs situated closer to the bottom of this multiple-level structure are managing more distribution affairs than those who are in the upper levels. (informant A01)

Multiple levels of PMs from headquarters to subsidiary are responsible for communication within the Alpha organisation. The PMs in the business units of headquarters serve as the representatives of all the subsidiary-level PMs managing the same products as them. (Informant A12)

The subsidiary-level BLMs not only contact A-HQ to ask for resources to support the A-SUB's operation in China, but also provide feedback regarding product development to the corresponding business units in A-HQ after gathering market information from the subordinated PMs managing the market areas. In addition, they attend regular meetings held in Taiwan to express their expectations in relation to product development according to the dynamics of the host market.

²² BLMs and PMs are positions in the öDivision of Productö of the marketing department of A-SUB (A-SUB-MKT) (as figure 5.2).

Assisted by PMs operating in the individual market areas in China, the BLMs in A-SUB monitor the changes in the local market. If needed, we will request that the PMs in headquarters provide technical support. (informant A02)

Business Line Managers (BLMs) of the different regional markets contribute feedback regarding product development at the meetings held in headquarters. This kind of meetings is held twice every year and its purpose is to discuss the road map for product development for the coming 12 to 18 months. (informant A13)

Beta gradually shifted its contract manufacturing business to B-SUB due to the increasing production costs in Taiwan. During the first three years after it was set up, it totally relied on B-HQ providing the detailed instructions of its production procedures. The archival data shows that in the beginning of 1990s, B-SUB mainly assembled the components coded by B-HQ as final products for export.

The key clients placed their orders with our parent company in Taiwan. The subsidiary in China functioned as the assembly lines, merely relying on the orders allocated by headquarter without any autonomy for obtaining other orders. Furthermore, the orders were dismantled into component codes and sent to the subsidiary for subsequent assembling. (*Newsletter*, 16-17, 2000)

Moreover, although B-SUB established a R&D team in 1993, this team initially concentrated on making, testing and assembling samples in a small volume for B-HQ. Positioned as a support team to the R&D centre in B-HQ, the linkages between this subsidiary-level R&D team to the manufacturing process were limited. In 1997, the R&D team in B-SUB was upgraded to a R&D department after the parent company handsomely invested in automatic equipment (*Newsletter*, 60, 2010). Equipped with independent R&D capabilities, together with the department of industrial design established in 1996, B-SUB integrated the contract manufacturing-related activities at the same location. Meanwhile, the process of striving for Japanese market business also pushed B-SUB into raising its capabilities in the technological and manufacturing fields.

Before 1997, the R&D activities [of B-SUB] were entirely controlled by headquarters [B-HQ]. Following the instructions from headquarters, we

manufactured the samples to the specifications provided. Meanwhile, we also provided feedback on testing products to headquarters. Not only products, at that time, all the materials which we attempted to procure from local suppliers required the approval of headquarters. (*Newsletter*, 60, 2010)

Beyond gradually integrating manufacturing-related managerial resources at the same location, B-SUB also gained the power to contact foreign clients directly. That is, the trading business was shifted from B-HQ to B-SUB after the latter set up the "Department for the export market" in the early 1990s. Therefore, by about 1997, B-SUB had almost replaced all the managerial functions of B-HQ. Unlike A-HQ, which has held the complementary resources for A-SUB's operating in the host market in China, it has emerged that these resources in support of marketing were set up in B-SUB by its headquarters. Given its declining importance in providing resources to B-SUB, B-HQ has had fewer linkages between it and B-SUB since the mid-1990s. In fact, a small financial team set up in B-HQ by B-SUB, is the only formal organisational linkage that remains between the two. This financial team, registered as the Taiwanese branch office of B-SUB, is responsible for managing the limited procurement business for B-SUB in Taiwan, tasked with such as contacting suppliers of machinery equipment for maintenance. Before 2000, this team had been led by one manager in charge of the financial affairs of B-HQ and B-SUB simultaneously. In 2000, B-HQ and B-SUB turned into two independent business entities in order to apply to have the latter listed on the Hong Kong Stock Exchange (HKEX)²³. In consequence, the ownership linkages between B-HQ and B-SUB were cut off.

²³ Taking the view that the profit generated from the Chinese market was not stable in 2000, B-SUB abandoned the plan of listing on Hong Kong Stock Exchange. Although B-HQ and B-SUB became two independent companies after 2000 by a regulative view, in this study B-HQ and B-SUB are used, because they were originally a headquarters and subsidiary and the fact that they split is just one possible trajectory for an EMNE and hence, valid for this thesis.

7.2.2 Setting up product plans meeting the demands of the host market

7.2.2.1 Interactions between A-HQ and A-SUB regarding product development

Following the organisational structure of the case companies described before, this subsection focuses on how Alpha drew up its product plan so as to respond to the demand of the host market in China. Beta, given that it gradually reinvested in the complementary functions of B-SUB, has faced much fewer cross-border management issues than Alpha.

Managing several regional markets at the same time, BU heads in A-HQ have to integrate the different demands of these when they set up the product plans, rather than merely follow the expectations of a single market. Given that the European market has contributed the largest proportion of Alpha's total profit, its product plans have reflected this distribution of profit-generating. That is, the preferences of European consumers have been its primary concern, which has resulted in the products launched by A-HQ not necessarily completely meeting with the market conditions of China.

Taking the global view, headquarters' [A-HQ's] direction of product development reflects the relative importance of the regional markets. Among the regional markets, the European market contributes the largest part of global sales, over 30% [of Alpha], while China is ranked as the third regional market in terms of the amount of sales. (informant A13)

In order to address the gap between the global-oriented product plan and the demands of the local market, A-HQ offered higher autonomy for A-SUB to launch products specific to the Chinese market. The detailed specifications of the new products provided by A-HQ have facilitated A-SUB being able to develop products compatible with those items launched by A-HQ. However, the whole process of product development has been centralised in A-HQ, rather than entirely starting from the demands of the host market in China.

We consider the feedback from the subsidiaries and reflect their concerns when we set up product plans. For instance, the monitors are designed so as to be easily matched with peripherals manufactured by our subsidiary in China. We provide detailed specification of product, such as shape and colour, to BLMs in A-SUB before the products are launched. Moreover, the local team of R&D in China is able to solve most of the technical problems, which mostly are regarding minor adaption to the demand of local market. (informant A13)

In addition, A-SUB holds autonomy to source local subcontractors to manufacture products, with most of those made in China being in the mature stage of product life cycles, such as portable disks. These products have been managed by A-SUB itself as there are no corresponding business units in A-HQ who are able to provide technical support. Even so, these subsidiary-launched products still have to get the approval from A-HQ before they are formally promoted in the Chinese market.

In China, we have been selling DVD-players, mice and other peripherals, which are product items at the mature stage without any technical support being provided by the headquarter [A-HQ]. Meanwhile, the subsidiary in China is empowered by headquarters to search for subcontractors and sets the prices by itself. (informant A13)

What we [A-SUB] have been concerned about is how to operate in the Chinese market. We are allowed to design and launch products for meeting local market demand. In addition, there are plenty of factories here [in China] to turn ideas regarding product development into real products. However, any host market-oriented items have to be approved by headquarters before formally being rolled out. (Informant A04)

The high-end products launched by headquarters might not be appreciated by the Chinese consumers, because China is at a different stage of market development from other regional markets. However, for our subsidiary in China, it is easier to find local subcontractors to manufacture those products developed for catering for the demand of the Chinese market. By contrast, without qualified local subcontractors, our subsidiary in Latin America entirely relies on headquarters in developing products. (informant A13)

Although empowered to some extent to launch products and source subcontractors in China, A-SUB has not been adequately equipped with the complementary resources needed for operating the host market in China. As indicated before, the process of product development has been largely managed by A-HQ. Moreover, the limited linkages between the marketing and other departments in A-SUB have led to it being dependant on A-HQ for providing any required resources. For instance, the R&D department of A-SUB reports directly to the R&D centre of A-HQ with limited horizontal linkages with marketing and other managerial departments within A-SUB. When A-SUB-MKT needs high-level technical support, e.g. modifying the specifications of products, BLMs in A-SUB contact PMs and BU heads in A-HQ and then obtain support from the R&D department.

R&D activities have been mainly managed by the headquarter [A-HQ]. The Advanced Technology Centre was established in Taipei, which is positioned as providing and applying the latest technologies to the new products. Although there are 200 engineers working here [Suzhou, China], they are not managed by our department [A-SUB-MKT]. They have to directly report to the Advanced Technology Centre at headquarters. (Informant A01)

In sum, A-SUB-MKT has promoted either the products assigned by A-HQ (such as monitors), or those that are independently managed at the subsidiary level (such as storage products). At the time of writing up this thesis, by comparing the product items shown on websites of A-HQ and A-SUB, it was observed that desktop, laptop computers and peripherals (keyboards, storage products, etc) were the items only sold in the Chinese market by the latter. Most of these product items are at the mature stage of the product cycle. In some cases, A-SUB-MKT has been allowed to combine the two types of products above into packages and promote them on the Chinese market. However, the consideration behind combining the products originated from A-HQ and A-SUB is to keep any specification changes to a minimum and then curtail the time spent in communicating between two sides.

We [A-SUB] launched the products by utilising the resources under our control. XXX is a typical case. Through combining several product items together, we launched the product XXX, which is promoted in the Chinese market only.

Meanwhile, we also saved time in communicating with headquarters because no changes in specifications were needed. (informant A01)

Apart from product development capability, price-setting is another cross-border management issue in the case of Alpha. In practice, A-HQ sets up the reference prices for products that A-SUB-MKT will promote in the Chinese market. The prices include cost of production and related expenses in design and R&D activities. Based on the prices suggested by A-HQ, A-SUB-MKT sets up the final prices for sales after adding marketing and related cost, such as delivery. However, A-SUB-MKT has sometimes complained that the prices set by A-HQ are too high to be accepted by the local consumers.

We provide reference prices for our subsidiaries to set up the price for sale. Sometimes they consider that the prices set by headquarters are too high to apply. However, in the view of headquarters, we also expect to get profit, so the pricing policy is tight. (informant A13)

On the marketing side, the product design and pricing are managed by the "Business Division" in headquarters, while launching promotion activities and managing distribution channels are our [A-SUB] responsibilities. Hence, communications between headquarters and subsidiaries are essential. (informant A12)

Conversely to requiring technological support from A-HQ, A-SUB is able to contribute projects in new product development for A-HQ. After reviewing the projects, A-HQ selects those holding the potential for generating profit and subsequently commences the necessary procedures, e.g. drawing up the specifications of moulds for new products.

Developing new products requires support from headquarters in moulding. However, the plans for new products need to be reviewed by headquarters first. If the PMs in A-HQ believe that the proposed products hold the potential for good sales, which means the development cost can be covered by the sales volume, then the projects with a BOM (bill of material) will be set up. Without the BOM administrated by headquarters, the projects cannot move forward across the departments in Alpha. (informant A10)

7.2.2.2 Organisational initiatives taken for addressing the gap between the product portfolios and the demands of the host market

In response to the issue of providing the complementary resources need for operating in the host market in China, A-HQ originally planned to set up an R&D centre in A-SUB. This initiative was expected to strengthen the responsiveness to the changing demands of this Chinese market. However, they eventually concluded that they needed to take advantage of the clustering effect of R&D resources, whereby all their talent would be in one place and consequently shelved the idea of devolving to A-SUB.

We did think of establishing dual R&D centres at headquarters and the subsidiary in China, together with a product centre responsible for launching products specific to the Chinese market. However, considering there is a close to the pool of R&D talents in Taiwan, we decided to retain the single R&D centre at headquarters. Meanwhile, the subsidiary in Suzhou is expected to focus on marketing and distribution management. (informant A1)

However, whilst R&D resources have been retained at A-HQ, a subsidiary-level technology product centre (Suzhou) was established in A-SUB in 2011. The main reason for setting up this subsidiary-level centre is to strengthen the product development capabilities of A-SUB. That is, although the PMs working in A-SUB are good at sensing market dynamics grounded in their close connections with distributors, they have been quite poor at interpreting the market information from the perspective of product development.

Even though we use similar titles- product managers (PMs), their job content is not the same. Basically, the PMs of regional branches in China are mainly responsible for sales business. By contrast, the product development process has been managed by high-level PMs in Suzhou and Taipei [headquarter]. In doing so, the former group of PMs have rarely handled product management affairs and have limited communications with headquarters. (informant A13)

The limitation which our subsidiary in China is facing is that although the BLMs are familiar with the distribution channels in the host country, they are short of product-related know how. Therefore, it is difficult for them to identify the

unexplored segments holding potential sales. To address this deficiency, PMs at headquarters visit the subsidiary in China frequently so as to link the two ends. (informant A13)

Similar to A-HQ's technology product centre which coordinates all BUs at headquarters, the centre set up in Suzhou (A-SUB) is responsible for providing technological support for all business lines. By all being in the same place and able to communicate easily, the BLMs of A-SUB now have access to timely technological support for developing products that meet local market demand.

This move [setting up the subsidiary-level technology product centre in Suzhou] efficiently simplifies the communication process with headquarter. In practice, the BLM in China can directly discuss with the 'Product Centre' in Suzhou, rather than reporting back to headquarters. (informant A02)

The subsidiary in China expects to handle the product management process by itself, because it takes longer when headquarters handles the whole process. In addition, by operating the whole process itself we are able to avoid transfer pricing issues associated with the higher margins when directly sourcing subcontractors in China, rather than having to rely on headquarters arrangements, which are more expensive. (informant A13)

Another measure recently taken by A-SUB was changing the positions of PMs in charge of the individual market areas to 'product marketing managers (PMMs)'. Different from sales staff who contact distributors to negotiate the details of distribution issues, such as procurement volume, the main job of these people is to discuss the direction of product development. Regarding this, contacts with distributors are made by PMMs before the new items are moved forward to the assembly lines. Moreover, the first-tier distributors are now consulted by this case subsidiary regarding some crucial issues, such as product design and the range of prices (informant A02). These organisational changes for addressing the gap between product development and marketing practices are displayed in figure 7.2.

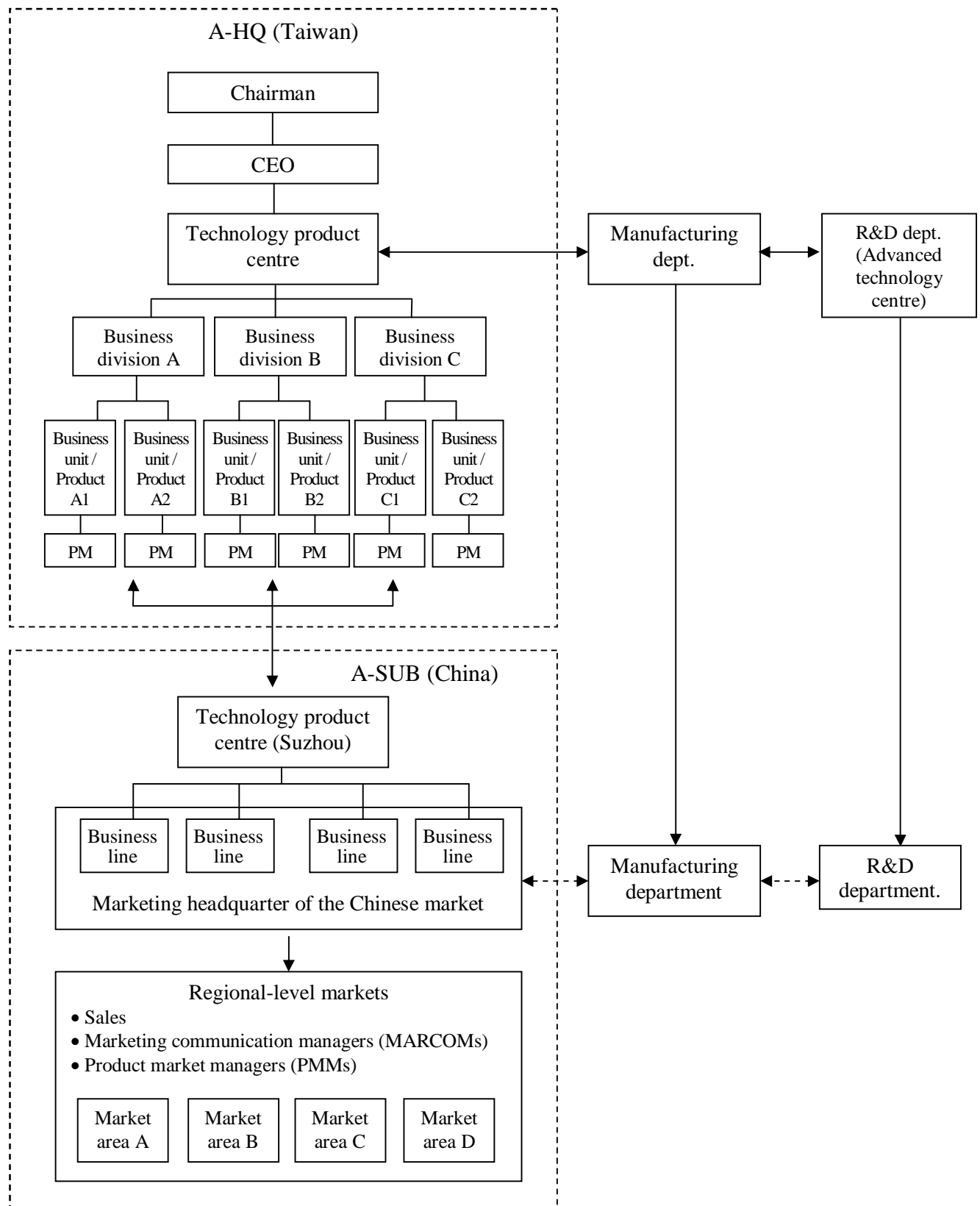


Figure 7.2 The Headquarters-subsidary relationships of Alpha (in 2011)

For Beta, B-SUB entirely relied on B-HQ support for technological resources in the first three years after it was established in Shenzhen. Afterwards, the latter decided to invest in setting up the complementary resources to marketing activities in B-SUB. In the middle of the 1990s, it was sequentially equipped with resources in manufacturing, R&D, testing and industrial design. These upgrades have not only facilitated B-SUB acquiring orders from clients in Europe and Japan, but have also led the distributors to have a strong trust its quality of product, thus building up the cooperation ties. That is, integrating all the complementary resources at the same place (Shenzhen) has enabled B-SUB to achieve leading status in the fan making sector, even exceeding its parent company. However, with managerial functions completely being set up in B-SUB, the role of B-HQ has been weakened.

Established in Shenzhen in 1991, B-SUB assembled the components delivered by B-HQ into products for about three years. Afterwards, with the highly localised technological capabilities, such as the moulding team, B-SUB's capabilities of R&D and product development have become superior to those of B-HQ. (informant B06)

The engineering department was established in 1997, and then merged with the R&D department in the next year. [Given the localised R&D capabilities] We decided to shift the development process from the parent company to the subsidiary in Shenzhen. (*Newsletter*, 60, 2010)

7.3 Reverse resource transfer from subsidiary to headquarters

This section seeks to explore the implications of the resources being generated by a powerful subsidiary for the MNE as a whole. When a subsidiary becomes increasingly important in an MNE's operations, presumably the resources generated by it can take a reverse direction, i.e. from subsidiary to headquarters. Based on the interviews regarding this issue, evidence regarding reverse resource flows has not been found in Alpha and hence the focus here is on the experiences of Beta.

The ideal practice is that the human resources in one subsidiary can be rotated between positions in headquarters and other subsidiaries. However, most of Taiwanese electronic MNEs have not effectively established good rotation

systems and it will take time to change their mind sets so as to accept job shifts.
(informant A01)

Although B-HQ not longer provides support for B-SUB's operation in the host market, it does still play a role in the latter's fortune. That is, since 2010, the products carrying brand Beta have been promoted by B-HQ in chain shopping malls in the Taiwanese market and hence it is now serving as B-SUB's national distributor in Taiwan. This move signals B-SUB's intention of exploring the market outside China.

Apart from being a newly-tapped market for B-SUB, Taiwan performs other roles for B-SUB's operations, especially in relation to fundraising and technology-seeking matters. Regarding the former, B-SUB had plans to list on a stock market to raise capital to support its further development. However, because the host market business in China didn't constantly make a profit in the beginning of 2000s, the goal of listing on the HKEX was abandoned. In recent years, B-SUB has considered applying to be listed on the Taiwan Stock Exchange (TWSE), which might be realised in 2012 or soon after. Moreover, since 2010, B-SUB has approached some Taiwanese universities to organise cooperative projects in the mechanical engineering field, which demonstrates that the home country is seen as a source of advanced technologies by B-SUB.

7.4 Concluding remarks and discussion

7.4.1 A summary of case illustration

This chapter was set out to capture how the headquarters-subsidary relationships of the case companies were adjusted to respond to the host market-oriented transformation of each subsidiary. Two directions of resource flow within the MNEs were investigated: forward and reverse transfer. The former refers to headquarters deploying complementary resources in support of the host market operations, i.e. R&D and product development, while the later denotes the resources which are transferred from the subsidiaries to headquarters. Table 7.1 summarises the empirical evidence from the case subsidiaries regarding headquarters-subsidary relationships.

Table 7.1 Summary of the within and across-case analysis: Headquarters-subsidary relationships

Initiative	Actions / Organisational Practices	Evidence-Alpha	Evidence-Beta
Organisational structure for cross-border management	<ul style="list-style-type: none"> • (Alpha) Centrally controlled by A-HQ • (Beta) Gradually shifting to B-SUB 	<ul style="list-style-type: none"> • Multiple levels of PMs have been in charge of communications between A-HQ and A-SUB • The products launched by A-SUB require the approval of A-HQ 	<ul style="list-style-type: none"> • B-HQ had controlled the manufacturing process of B-SUB • Splitting into two independently owned entities in 2000 • One financial team of B-SUB has been kept in B-HQ
Complementary resources to marketing	<ul style="list-style-type: none"> • The subsidiaries were equipped with complementary resources to marketing for operating in the host market 	<ul style="list-style-type: none"> • Product development and R&D resources have been controlled by A-HQ • A technology product centre was established in A-SUB in 2011 • A-SUB has held some power to launch products and search for local suppliers, but these have to get A-HQ's approval 	<ul style="list-style-type: none"> • Getting orders from Japanese clients has led to complementary resources being gradually built up in the host country
Reverse resource transfer	<ul style="list-style-type: none"> • (Beta) Exploring untapped markets other than the host one 	(therefore there is limited evidence)	<ul style="list-style-type: none"> • The products of B-SUB are being exported to Taiwan as a newly-explored market
Two emerging patterns of headquarters-subsidary relationships		<ul style="list-style-type: none"> • Traditional MNE facing the responsiveness issue 	<ul style="list-style-type: none"> • B-HQ's role has gradually been replaced by B-SUB (migrating headquarters)

As to the two directions of resource flow investigated in this study, the majority of the empirical data are with respect to the forward one, i.e. the resources transferred from headquarters to subsidiaries to enable them to operate the host market in China. By contrast, the resource flows in reverse direction were rarely observed in both case subsidiaries. One such occurrence in relation to B-SUB is that B-HQ is now promoting the products developed and manufactured by B-SUB in the Taiwanese market. However, so far only tangible assets in the form of products have been transferred back to B-HQ and not any intangible marketing knowledge or other experiences.

Regarding the forward direction of resource flow, Alpha and Beta have exhibited two distinct patterns and the differences can be explained from the respective nature of their resource bases. That is, having accumulated greater experience in international operations before tapping into the Chinese market, Alpha faced fewer challenges regarding the appropriate organisational setting between A-HQ and its subsidiaries, e.g. the structure of A-SUB's marketing department has not been changed since it was set up. However, it has faced a gap between global-oriented product development and host market-oriented demand.

That is, although A-SUB holds authority for launching products specific to the Chinese market and sourcing local subcontractors, A-HQ has dominated its product development process. Given that A-HQ has developed products mainly reflecting the demand of European and US market, properly setting the product portfolio has been a major management challenge for A-SUB. In consequence, the global-oriented product development has not been accommodating the demand of the Chinese market in a timely manner. For instance, in some cases the products launched by A-HQ and then promoted in the Chinese market have been items with advanced technologies which have not met local demand. Alpha set up its first subsidiary-level technology product centre in A-SUB in 2011, which is expected to provide local market-oriented technological support and hence address the gap.

By contrast, B-SUB represents another rather extreme pattern of headquarters-subsidiary relationships. That is, it built up its basic R&D functions with resources provided by B-HQ during the first few years of its existence. Subsequently, supported by B-HQ reinvesting in facilities, B-SUB was further equipped with managerial

functions from R&D, testing to product design. With its marketing and complementary resources, it has been able to respond in a timely manner to the demands of the host market. Given that B-SUB has gradually replaced most of its headquarters' functions and has become a rather powerful subsidiary, thus manifesting 'migrating headquarters', as labelled in this thesis. Figure 7.3 holistically presents the pathways of case subsidiary in relation to deploying complementary resources to support the host market-orientation of the subsidiaries.

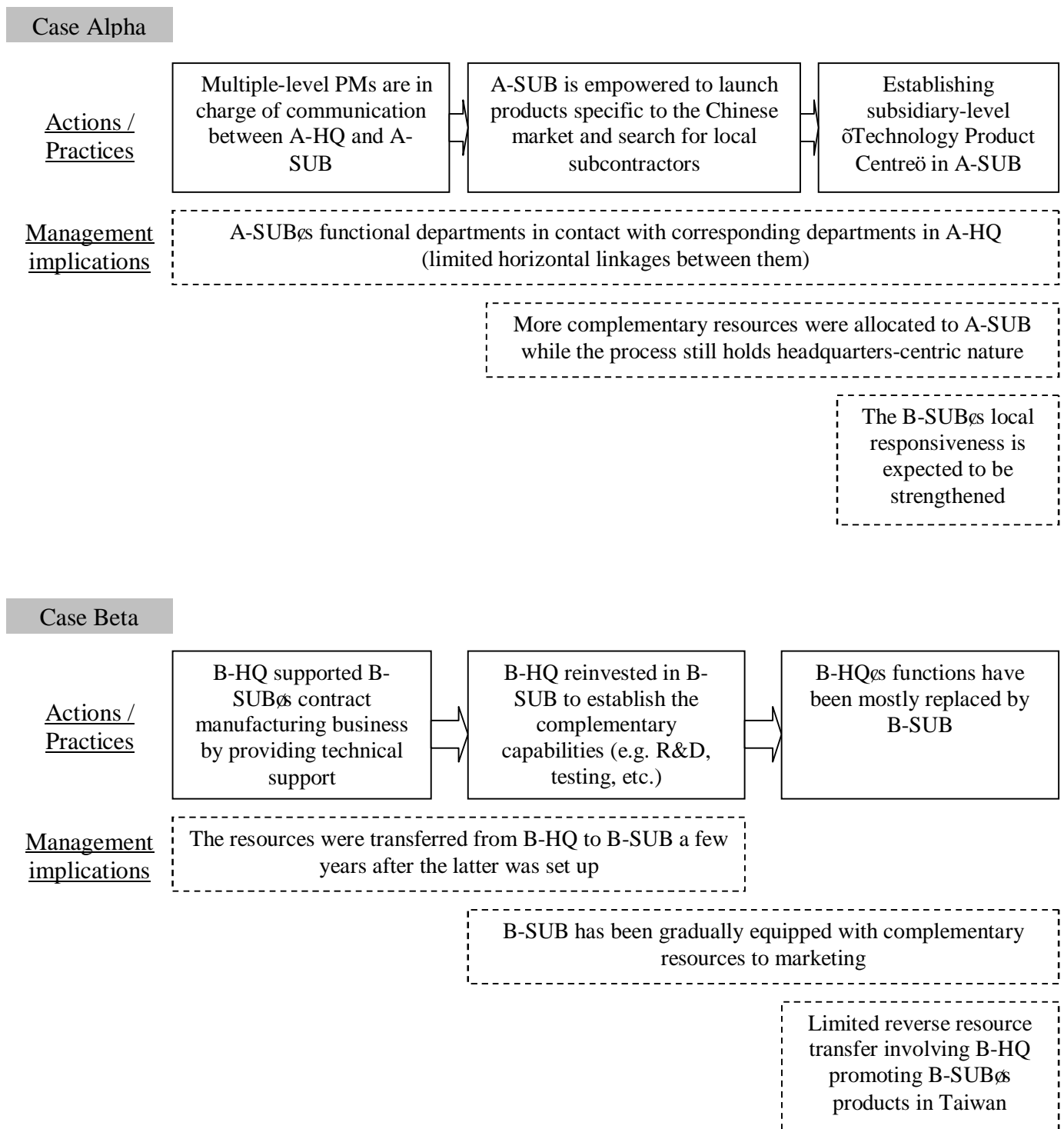


Figure 7.3 Analysis outcomes regarding subsidiary transformation for the aspect of headquarters-subsidiary relationships

7.4.2 Discussion with the propositions raised from the case studies

During the process of transforming from an export-orientation to a host market-oriented one, both case subsidiaries faced a lack of complementary resources to marketing activities, i.e. R&D and product development. Given that these resources have been controlled by headquarters in terms of allocating to different units of MNEs, or characterised as high level of headquarters involvement (Ciabuschi, Dellestrand, & Martín, 2011), both case subsidiaries faced issues of communicating with corresponding departments in A-HQ or B-HQ so as to acquire the resources for effectively operating in the host market.

For A-SUB, since its product development has been largely coordinated by A-HQ, coupled with limited horizontal linkages between marketing and R&D department within A-SUB, more communications between A-HQ and A-SUB were needed for acquiring these complementary resources. However, the responsiveness of A-SUB to the local market demand has been constrained by this HQ-centric process. In addition, A-HQ has been drawing up the product plans for different country markets in a comprehensive manner, which inevitably means it has been unable to entirely respond to the demand of individual country market. The newly-established subsidiary-level technology product centre in Suzhou is expected to address this gap in product development. Given that this host market-oriented centre was set up in 2011, nearly fifteen years after A-SUB started to operate the Chinese market, this practice shows that A-HQ had long term reluctance to allocating complementary resources to A-SUB. This phenomenon echoes the perspective put forward by some researchers that the resource commitment from headquarters might decrease if the subsidiaries are seen to be too embedded in the host country and hence perceived be a potential threat to the headquarters (Ambos, et al., 2011; Chang & Rosenzweig, 2009; Chen, et al., 2012).

By contrast, unlike A-SUB, whose product portfolio has been linked to Alpha's master plan for product development, B-SUB has had full authority for operating the host market in China devolved to it. For instance, extending from promoting electronic fans and heaters which were highly associated with the export business, B-SUB has been developing and selling new products specifically for the Chinese

market since 2010, e.g. kitchenware items. Another typical instance is, the newly-launched products in 2011 which hold the energy-saving features were entirely developed and promoted in China, and then got noticed from the Japanese and Korean clients who purchased them afterwards.

In sum, it is concluded that neither of the case companies has effectively managed the cross-border resource deployment in response to the host market-oriented changes in the strategic positioning of their subsidiaries. Namely, both case companies faced the challenge regarding how the linkages between headquarters and subsidiaries in terms of resource flow, has responded to the host market-orientation of the latter. For Alpha, it has conducted more practices in deploying resources from A-HQ to A-SUB than in the case of Beta, however, the whole process has been largely controlled by the former. By contrast, Beta has undertaken limited resource transfers between B-HQ and B-SUB since the former decided to equip the latter with complementary resources to marketing by the reinvestment made in a few years after B-SUB was established in China.

The practices observed from the case subsidiaries as typical EMNEs are now compared with those conducted by the MNEs from developed economies. For leading MNEs, such as General Electronic Company, they have been able to adopt subsidiary-centric reverse innovation in order to capture the business opportunities in emerging economies (Immelt, Govindarajan, & Trimble, 2009). That is, they develop products to meet the demand of host market together with the support provided by headquarters, rather than request their subsidiaries to adapt the products developed by headquarters to fit with local market conditions. Hence, it is concluded that EMNEs not only lack the local marketing competences when they undertake host market-seeking transformation, but they also fail to establish avenues acquiring the complementary resources to marketing activities, in particular those featured as high level of headquarters involvement. Admittedly, in the case of B-SUB there was a substantial reinvestment in these resources, but this was only a one-off and no subsequent communication channels of this nature were built. This finding regarding relations with headquarters so as to acquire the necessary resources, advances internationalisation theory which proponents have mainly focused on internalising the location-bound assets in the host country (Narula, 2012).

With regard to the deployment of resources between headquarters and subsidiaries so as to support the subsidiary transformation, the different types of them and their characteristics have to be considered. In line with Rugman et al.'s (2011) perspective, the findings of this study highlight that the challenge of transferring the resources with high level of headquarters involvement to support the subsidiaries during their host market-oriented transformation. That is, given that R&D resources are nearly always controlled by headquarters (Asakawa, 2001), the key challenge of internationalisation is how to allocate and apply them as marketing activities holding local-embedded features, such as those related to distribution and promotion. From consideration of the pathways of the two case studies, it has been elicited that these EMNEs have been weak at addressing the cross-border resource deployment so as to support the subsidiary transformation aimed at capturing the host market in China and this leads to the fifth proposition as follows.

Proposition 5: The more that EMNE subsidiaries require resources (1) holding a high level of headquarters involvement; (2) being transferred from the home country so as to support host market-oriented operations, the less likely they are to achieve local responsiveness.

For case company Beta, after keeping manufacturing capacities in Taiwan and China for about three years, it reinvested to strengthen B-SUB's capabilities in R&D, testing and industrial design. Unlike A-HQ which held relatively ample resources for supporting its subsidiary's transformation, B-HQ faced the decision whether either to raise the complementary capabilities to marketing in B-HQ or to strengthen B-SUB's ones by investing in parallel management functions. After concluding that the co-location of managerial functions was beneficial for internal coordination, B-HQ undertook the latter option, which eventually led to most of its roles being gradually replaced by B-SUB and the term 'migrating headquarters' has been coined here to describe this phenomenon. That is, this represents the situation where the roles of headquarters are incrementally replaced and the strategic importance of the subsidiary increases within the MNE.

The concept of 'subsidiary mandate' defined as 'any subsidiary responsibility that extends beyond its own market' (Birkinshaw, 1996, p. 468), is adopted to further interpret the meaning of migrating headquarters. That is, according to this author's

categorisation, B-SUB turned into a 'large integrated mandate' by a series of mandate renewals and therefore held full managerial functions, including those which were once held by B-HQ, e.g. the export market business. However, the findings of this study advance the research on subsidiary mandate in two respects: the resource circumstances of EMNEs' headquarters and the characteristics of the required capabilities for subsidiary transformation. With respect to the former, it is argued that EMNEs that hold relatively limited resources, are highly likely to encounter the situation where most of their functions are superseded by the one large integrated subsidiary, through reinvestment in the latter aimed at ensuring its resource cluster is sufficient for its proposed operations. As to the latter, it is put forward that the evolutionary path of subsidiary mandate is shaped by the characteristics of the required capabilities for subsidiary transformation, e.g. acquiring complementary capabilities is critical for building up marketing capabilities (Morgan, Vorhies, & Mason, 2009). However, a comprehensive outward transfer of complementary resources from headquarters owing to such host market-oriented subsidiary transformation is likely to lead to the phenomenon of migrating headquarters. Hence, the sixth proposition is raised as follows.

Proposition 6a: The fewer resources EMNEs' headquarters hold, the more likely their roles are to be taken over by a subsidiary with a large integrated mandate during the process of its host market-oriented transformation.

Proposition 6b: The more that EMNEs' subsidiaries possess the resources featuring a high level of headquarters involvement, the more likely they are gradually to take over most of the latter's roles.

The proposition 5 and 6b, raised from the two case subsidiaries respectively, indicate distinctive pathways of host market-oriented subsidiary transformation in terms of headquarters-subsidiary relationships. In addition, the contrastive result of inefficiently responding to host market demand and 'migrating headquarters' refers to the weakness of EMNEs in resource allocation so as to support host market-oriented subsidiary transformation.

The last issue covered in relation to this aspect is that regarding reverse resource flows from subsidiaries to headquarters and according to the findings from both case

companies frequent flows were not observed. In fact, the only evidence was when B-HQ started to promote the hit products of B-SUB in its home country market, Taiwan, in 2010. For Alpha, reverse resource transfer, in the form of human resources, product development, or knowledge, was widely reported as being rare by the informants. Further comparison studies are merited to explore why such reverse flows have been largely absent in these EMNEs.

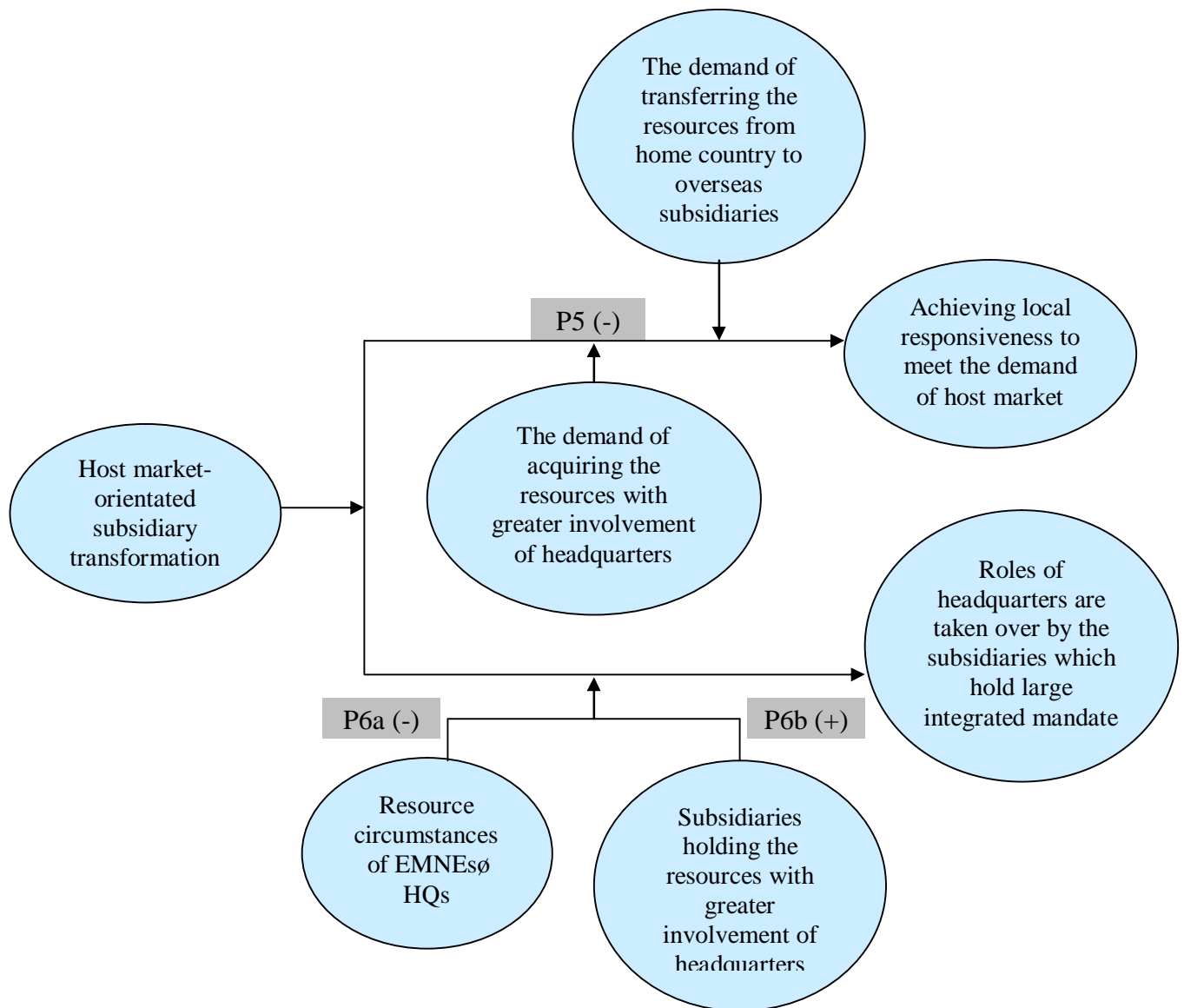


Figure 7.4 The propositions regarding subsidiary transformation for the aspect of headquarters-subsidary relationships

Chapter summary

This chapter has investigated how the headquarters-subsidary relationships of the case companies were altered to respond to the host market-oriented subsidiaries. Given that A-HQ has adopted the global view in developing products, the demand of the Chinese consumers has been partially reflected in Alpha's overall product portfolio. Moreover, the product development and R&D resources have been centrally managed by A-HQ and this has constrained the responsiveness of A-SUB. However, the newly-established technology product centre in A-SUB is expected to address the gap in product development. By contrast, the findings for Beta have revealed a process involving the gradual replacement of headquarters' functions by its powerful subsidiary, which has markedly increased its strategic importance and the term 'migrating headquarters', has been introduced to represent this phenomenon. Meanwhile, the evidence regarding reverse resource transfer was limited in both case companies.

In general, the distinctive patterns emerging from the two case companies both show their weakness in efficiently deploying complementary resources to their subsidiaries so as to respond to their transformation. Moreover, the host market-oriented subsidiary transformation has further made the issues regarding cross-border resource transfer and communication within these EMNEs more challenging. These findings deepen understanding of how such companies can evolve into another stage of internationalisation through deploying complementary resources to marketing so as to support the host market-oriented subsidiaries.

Chapter 8 Conclusion

8.1 Introduction

Taking two Taiwanese MNEs and their subsidiaries set in China as case studies, this research has explored how the latter coped with the resource deficiency they encountered when they transformed their strategic positioning from export-orientation to a host market-seeking one. In particular, local marketing competences (Wu, et al., 2007) have been identified as the required resources for their extensively operating the Chinese market. Through further investigating the aspects of subsidiary organisations, inter-firm relations with distributors, and headquarters-subsidiary relationships, the subsidiary transformation trajectories of the case companies have been revealed. Moreover, a set of propositions generated from the findings regarding the three aspects investigated in this study have been put forward for testing in future research. More specifically, given that the case subsidiaries faced the dual liabilities of emergingness (Madhok & Keyhani, 2012) and foreignness (Zaheer, 1995) when they tapped into the host market in China, the propositions reflect the linkages between the resource circumstances of the case subsidiaries, the institutional environment of the host country, and the organisational initiatives undertaken by them.

This chapter is organised as follows. Section 8.2 briefly summarises the main findings of the case studies along with the related propositions generated from the discussion in the previous chapters. Next, section 8.3 demonstrates how the empirical outcomes correspond or contrast with the literature reviewed in chapter 2 and hence, how they contribute to the extant theories. The limitations of this study and directions for future research are subsequently presented in sections 8.4 and 8.5.

8.2 Main findings with propositions

8.2.1 Resource reconfiguration of subsidiary organisations

With regards to aligning the resource bases of the case subsidiaries with the host market-orientation, the pair of concepts capability (or resource) leverage and

capability (or resource) building were adopted to explore how they dealt with the historical contract manufacturing-based resources as well as how they addressed resource deficiency. Regarding the former, at the inception of tapping into the host market in China, their historical resources were exploited so as to support the host market business in several ways. For example, by leveraging the product items and human resources of their export business, both case subsidiaries initially penetrated the host market on a trial basis. Subsequently, new marketing departments responsible for the Chinese market were set up, together with other capability-building initiatives, such as undertaking changes in the process of product development which turned to be marketing department-centric. Even though the relative importance of capability (or resource) leverage and capability (or resource) building initiatives has varied across the stages of subsidiary transformation, the value of their historical resources / capabilities has been continually exploited to support the new business arena of the host market.

Taking the type of business operated by the case subsidiaries into account, it has emerged that the export-oriented business was retained when they entered the host market in China. In addition, drawing on the concepts of organisational learning indicated by March (1991): exploration and exploitation, to refer to the export-oriented and host market-oriented business respectively. Given that the case subsidiaries have operated both types of business at the same time, the concept of 'organisational ambidexterity' (Gibson & Birkinshaw, 2004) is further adopted to represent its simultaneous nature. However, given that operating the two businesses simultaneously might have created conflict in resource allocation, such as between the manufacturing capacities of the export and host market business, the case subsidiaries undertook initiatives of rationalising production plans and training their labour force so as to be able to manage orders in varying forms, and hence could coordinate the two types of business effectively.

Accordingly, prioritisation of exploiting the historical resources and conducting exploitation and exploration simultaneously, have been identified as the two main strategic practices regarding the resource reconfiguration of these subsidiary organisations and two propositions were put forward regarding the determinant factors of these two initiatives. The first one is in relation to the scale of reconfiguring

resources derived from new business (P1a) and the characteristics of the required capabilities for subsidiaries to operate it (P1b). That is, it is argued that given the substantial demand of reconfiguring resource bases caused by changes in subsidiaries' market orientation, together with the process of addressing resource deficiency, i.e. marketing capabilities, which hold great tacitness requiring organisation-wide adjustment, the case subsidiaries prioritised exploiting their historical resources, rather than investing in developing new ones. The second proposition is with regards to the perspective that the risk caused by uncertainty of new business was the key factor determining the simultaneous exploitation and exploration strategies employed by the subsidiaries of EMNEs (P2)

8.2.2 Inter-firm relations with distributors

Building up the inter-firm relations with distributors has been fundamental to the case subsidiaries' getting access to the host market in China. In addition to searching for appropriate distributors for managing the designated market areas, once identified, A-SUB and B-SUB primarily undertook economic mechanisms in order to govern effectively their relations with distributors. That is, ensuring financial robustness for the distributors has been the driving force fundamental to the inter-firm relations. Not only were performance-based reward systems adopted to encourage distributors to sell products, but the case subsidiaries also imposed penalties for distributor behaviour that disrupted market orders.

Afterwards, given the more recent involvement of the distributors in the value-creating activities of subsidiaries, such as the product development, it has been concluded that their resource bases have become aligned with the closer tiers with distributors. However, among the different tiers of distributors, the first-tier ones have become closely integrated with the case subsidiaries in terms of managerial functions, such as being invited to provide feedback on newly-launched products. That is, two-way exchanges of market information have been established between the case subsidiaries and most of the distributors holding core status. However, although the first-tier distributors now hold close ties with the case subsidiaries, they are still being pressurised to explore the untapped market areas, which can be interpreted as the

latter acting to maintain their dominant roles in managing the inter-firm relations with distributors so as to minimise risk.

Moreover, in contrast to having to rely heavily on the distributors at the inception of tapping into the Chinese market, it emerged that the case subsidiaries gradually obtained greater bargaining power for shaping their relations with distributors. That is, supported by the growing brand strengths and more direct contact with consumers, they have been able to adjust their distribution systems so as to achieve their strategic goals. In practice, the case subsidiaries requested distributors to further explore the untapped markets by putting pressure on them in terms of searching additional ones to manage the market areas.

Hence, two propositions regarding the inter-firm relations between subsidiaries and distributors have been put forward. Given that primarily undertaking economic mechanisms in governing their relations with distributors, together with the goal of retaining authority over these ties, has been identified as the featured strategic initiatives adopted by the case subsidiaries, the propositions represent the linkages between the determinant forces and these initiatives. That is, it is argued that the shortage of marketing resources, such as renowned brand names, has led to the case subsidiaries largely adopting economic mechanisms to govern inter-firm relations with their distributors (P3). In addition, the fourth proposition purports that the subsidiaries attempted to retain a high level of authority over their inter-firm relations with external actors, e.g. distributors, due to the risk of doing business in the host market (P4).

8.2.3 Headquarters-subsidiary relationships

With regards to how the headquarters-subsidiary relationships responded to the host market-seeking transformation of each subsidiary, given that most of the informants did not perceive their being any significant reverse resource flows that had occurred in their companies, the focus regarding this aspect of subsidiary transformation was on the resources transferred from headquarters to subsidiaries. As to this forward direction of resource flows within MNEs, two distinctive patterns emerged from the case companies. For A-SUB, although it has been empowered to seek local subcontractors in China, its headquarters has highly involved in the whole process of

product development and the allocation of R&D resources. Consequently, this headquarters-centric process has confined the responsiveness of the subsidiary. The subsidiary-level technology product centre set up in 2011 is expected to address this weakness in responding the demands of the host market. By contrast, given that B-HQ did not have ample resources to support B-SUB's foreign operation, no further resource transfer from B-HQ to B-SUB occurred after the former gave the latter complementary resources in the first three years after it was established. That is, B-HQ reinvested so as to elevate capabilities of B-SUB in: R&D, testing and industrial design. Consequently, given that managerial functions were comprehensively set up in B-SUB, the roles of B-HQ were largely replaced by B-SUB and the term 'migrating headquarters' has been used to represent this phenomenon.

Two propositions associated with headquarters-subsidary relationships were raised. The first is regarding the accommodation of the demands of host market being determined by efficiently allocating the resources with high level of headquarters involvement from the home country to overseas subsidiaries (P5). That is, the practices observed for the case companies have shown that the EMNEs were weak at allocating those resources mostly controlled by headquarters, e.g. R&D, so as to support their host market-oriented subsidiaries. For case Beta, B-HQ reinvested in B-SUB to strengthen its capabilities in R&D, testing and industrial design, which can be seen as sequential FDI (Song, 2002) by a one-off inflow of capital, rather than transferring resources in the manner of frequent communication between the two sides.

Moreover, the sixth proposition referring to the phenomenon of 'migrating headquarters' emerged in case Beta, whereby the roles of B-HQ were gradually replaced by B-SUB along with managerial functions being directly established in China. Adopting the concept of 'subsidiary mandate' (Birkinshaw, 1996), it is argued that the subsidiaries with a large integrated mandate are likely to replace their headquarters' roles in light of two determinant factors: (1) the resource circumstances of EMNEs' headquarters (P6a) and (2) subsidiaries holding the resources with greater involvement of headquarters (P6b). That is, the limited resources held by headquarters leads to a 'pushing effect' that results in reinvestment so as to equip their host market-oriented subsidiaries with the complementary resources, as in case Beta. Moreover, for the EMNEs which headquarters holding limited resources, it is

emerged that their subsidiaries possessing more resources with high involvement of headquarters, the phenomenon of migrating headquarters is highly likely occurs.

Synthesising the above discussion, a summary of the main findings coupled with the propositions raised is displayed as Table 8.1. It has been found that the two case companies undertook relatively similar organisational initiatives regarding the first two analysis aspects: resource reconfiguration of the subsidiary organisation and inter-firm relations with distributors, but had different trajectories in relation to headquarters-subsidiary relationships.

Figure 8.1 further shows the interrelations between the theoretical constructs with the propositions generated from the analysis chapters 5 to 7. Among these constructs, the resource circumstances of EMNEs subsidiaries hold the focal position in linking the three investigation aspects of this study. Moreover, given that both case companies are EMNEs, their resource circumstances could function as a control variable in any future quantitative model based on this framework. By contrast, the following factors would act as independent variables: (1) the scale of resource reconfiguration caused by new business, (2) the characteristics of the required resources for new business, (3) the risk caused by uncertainty of new (host market) business, (4) the resource circumstances of EMNEs subsidiaries (5) the resource circumstances of EMNEs headquarters, and (6) the demands of subsidiaries to acquire resources with a high level of headquarters involvement. In addition, the strategic initiatives and practices undertaken by the case subsidiaries would perform the role of dependent variables. Finally, the four types of capabilities circled by dotted lines refer to the elements encompassing dynamic capabilities drawn upon for this study.

Table 8.1 Summary of the cross-case analysis

Initiative \ Case		Action / Organisational Practices	Evidence-Alpha	Evidence-Beta	Propositions
Resource reconfiguration of the subsidiary organisation	Capability (or resource) upgrading	<ul style="list-style-type: none"> Upgrading the manufacturing and related resources / Capabilities so as to get orders from additional clients 	<ul style="list-style-type: none"> Improving the quality of product so as to get additional orders from local PC brand marketers 	<ul style="list-style-type: none"> Improving the quality of product and increasing manufacturing capacities so as to get additional orders from Korean/Japanese clients 	<p>Proposition 1a: The greater the scale of resource reconfiguration caused by new business for EMNEs subsidiaries, the more likely they are to prioritise exploiting their historical resources during the initial stage.</p>
	Capability leveraging	<ul style="list-style-type: none"> Exploiting the historical resources to support the host market business 	<ul style="list-style-type: none"> Some staff of the manufacturing department were assigned to manage the host market business Promoting hit products of the export market to the host market in China 	<ul style="list-style-type: none"> Promoting hit products of the export market to the host market in China 	<p>Proposition 1b: The greater the tacitness of the required resources for developing new business for EMNEs subsidiaries, the more likely they are to prioritise exploiting their historical resources during the initial stage.</p>
		<ul style="list-style-type: none"> Addressing the potential conflict between own brand and clients' benefits 	<ul style="list-style-type: none"> Subtle changes in the specifications of products 	<ul style="list-style-type: none"> Geographical separation of the markets 	

Initiative \ Case		Action / Organisational Practices	Evidence-Alpha	Evidence-Beta	Propositions
Resource reconfiguration of the subsidiary organisation	Capability building	<ul style="list-style-type: none"> • Building up new departments and changes in organisational structure 	<ul style="list-style-type: none"> • New marketing department in charge of the Chinese market 	<ul style="list-style-type: none"> • New marketing department in charge of the Chinese market • Limited horizontal linkages between managerial functions 	
		<ul style="list-style-type: none"> • Changes in the business process 	<ul style="list-style-type: none"> • Marketing-centric adjustments to the business process 	<ul style="list-style-type: none"> • Marketing-centric adjustments to the business process 	
		<ul style="list-style-type: none"> • Product development to address the gap between local market demand and the extant product portfolio 	<ul style="list-style-type: none"> • Highly controlled by A-HQ • Adapting products developed by A-HQ for China 	<ul style="list-style-type: none"> • Launching a new series of products in China (kitchenware) 	

Initiative \ Case		Action / Organisational Practices	Evidence-Alpha	Evidence-Beta	Propositions
Resource reconfiguration of the subsidiary organisation	Coordination capability	<ul style="list-style-type: none"> Addressing the potential internal conflict between the export and host market business 	<ul style="list-style-type: none"> Training of labour for coping effectively with a wide range of orders 	<ul style="list-style-type: none"> Prioritising the orders of the export market 	Proposition 2: The greater the risk caused by uncertainty of new business, the more likely subsidiaries of EMNEs are to simultaneously adopt exploitation and exploration strategies.
Inter-firm relations with distributors	Selecting and governing the relations with distributors	<ul style="list-style-type: none"> Highly self-managed distribution channels that do not rely on national distributors Selecting exclusive distributors in a bounded area 	<ul style="list-style-type: none"> Directly contacting about 700 distributors covering 250 city-level markets (2006) Exploring the emerging types of distribution channels 	<ul style="list-style-type: none"> Directly contacting about 300 distributors, which in total controlled over 10,000 sale points (2010) Exploring the emerging types of distribution channels 	Proposition 3: The fewer marketing resources that EMNE subsidiaries hold, the more likely they are to use mechanisms aimed at providing stable profitability for their distributors.
		<ul style="list-style-type: none"> Adopting economic and social governance mechanisms 	<ul style="list-style-type: none"> Various financial incentives and supportive mechanisms 	<ul style="list-style-type: none"> Various financial incentives and supportive mechanisms 	

Initiative \ Case		Action / Organisational Practices	Evidence-Alpha	Evidence-Beta	Propositions
Inter-firm relations with distributors	Interactions between the distributors and the subsidiary value-creation activities	<ul style="list-style-type: none"> Contributing their observations about market changes for brand marketers 	<ul style="list-style-type: none"> Alpha followed the suggestions from distributors and initiated one Chinese market-specific product Key distributors are expected to provide feedback on the prototypes of new products 	<ul style="list-style-type: none"> Key distributors are expected to provide feedback on the prototypes of new products 	
	The evolution of inter-firm relations	<ul style="list-style-type: none"> Case subsidiaries coming to hold the upper hand in the inter-firm relations with the distributors in contrast to during the initial stage 	<ul style="list-style-type: none"> Putting pressure on the distributors to penetrate the in-depth market 	<ul style="list-style-type: none"> Putting pressure on the distributors to penetrate the in-depth market Initiating JVs with the key distributors 	Proposition 4: The greater the risk of doing business in the host market, the more likely subsidiaries of EMNEs seek to retain a high level of authority over inter-firm relations with their distributors.

Initiative \ Case		Action / Organisational Practices	Evidence-Alpha	Evidence-Beta	Propositions
Headquarters-subsidiary relationships	Organisational structure for cross-border management	<ul style="list-style-type: none"> • (Alpha) Centrally controlled by A-HQ • (Beta) Gradually shifting to B-SUB 	<ul style="list-style-type: none"> • Multiple levels of PMs have been in charge of communications between A-HQ and A-SUB • The products launched by A-SUB require the approval of A-HQ 	<ul style="list-style-type: none"> • B-HQ had controlled the manufacturing process of B-SUB • Splitting into two independently owned entities in 2000 • One financial team of B-SUB has been kept in B-HQ 	<p>Proposition 5: The more that EMNE subsidiaries require resources: (1) holding a high level of headquarters involvement; (2) being transferred from the home country so as to support host market-oriented operations, the less likely they are to achieve local responsiveness.</p> <p>Proposition 6a: The fewer resources EMNEs' headquarters hold, the more likely their roles are to be taken over by a subsidiary with a large integrated mandate during the process of its host market-oriented transformation.</p> <p>Proposition 6b: The more that EMNEs' subsidiaries possess the resources featuring a high</p>
	Complementary resources to marketing	<ul style="list-style-type: none"> • The subsidiaries were equipped with complementary resources to marketing for operating in the host market 	<ul style="list-style-type: none"> • Product development and R&D resources have been controlled by A-HQ • A technology product centre was established in A-SUB in 2011 • A-SUB has held some power to launch products and search for local suppliers, but these have to get A-HQ's approval 	<ul style="list-style-type: none"> • Getting orders from Japanese clients has led to complementary resources being gradually built up in the host country 	

Initiative \ Case		Action / Organisational Practices	Evidence-Alpha	Evidence-Beta	Propositions
Headquarters-subsidary relationships	Reverse resource transfer	<ul style="list-style-type: none"> • (Beta) Exploring untapped markets other than the host one 	(therefore there is limited evidence)	<ul style="list-style-type: none"> • The products of B-SUB are being exported to Taiwan as a newly-explored market 	level of headquarters involvement, the more likely they are gradually to take over most of the latter's roles.
	Two emerging patterns of headquarters-subsidary relationships		<ul style="list-style-type: none"> • Traditional MNE facing the responsiveness issue 	<ul style="list-style-type: none"> • B-HQ's role has gradually been replaced by B-SUB (migrating headquarters) 	

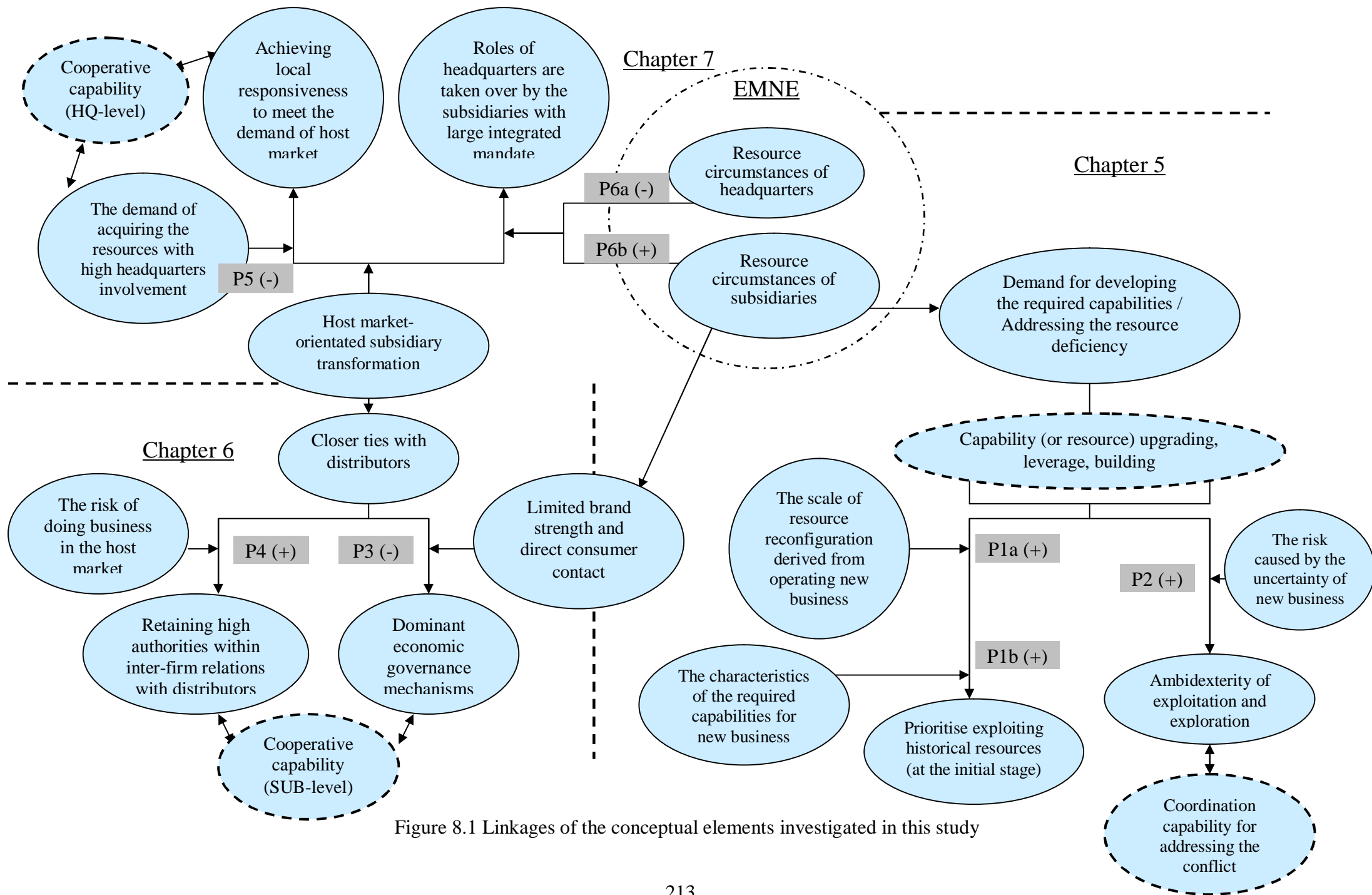
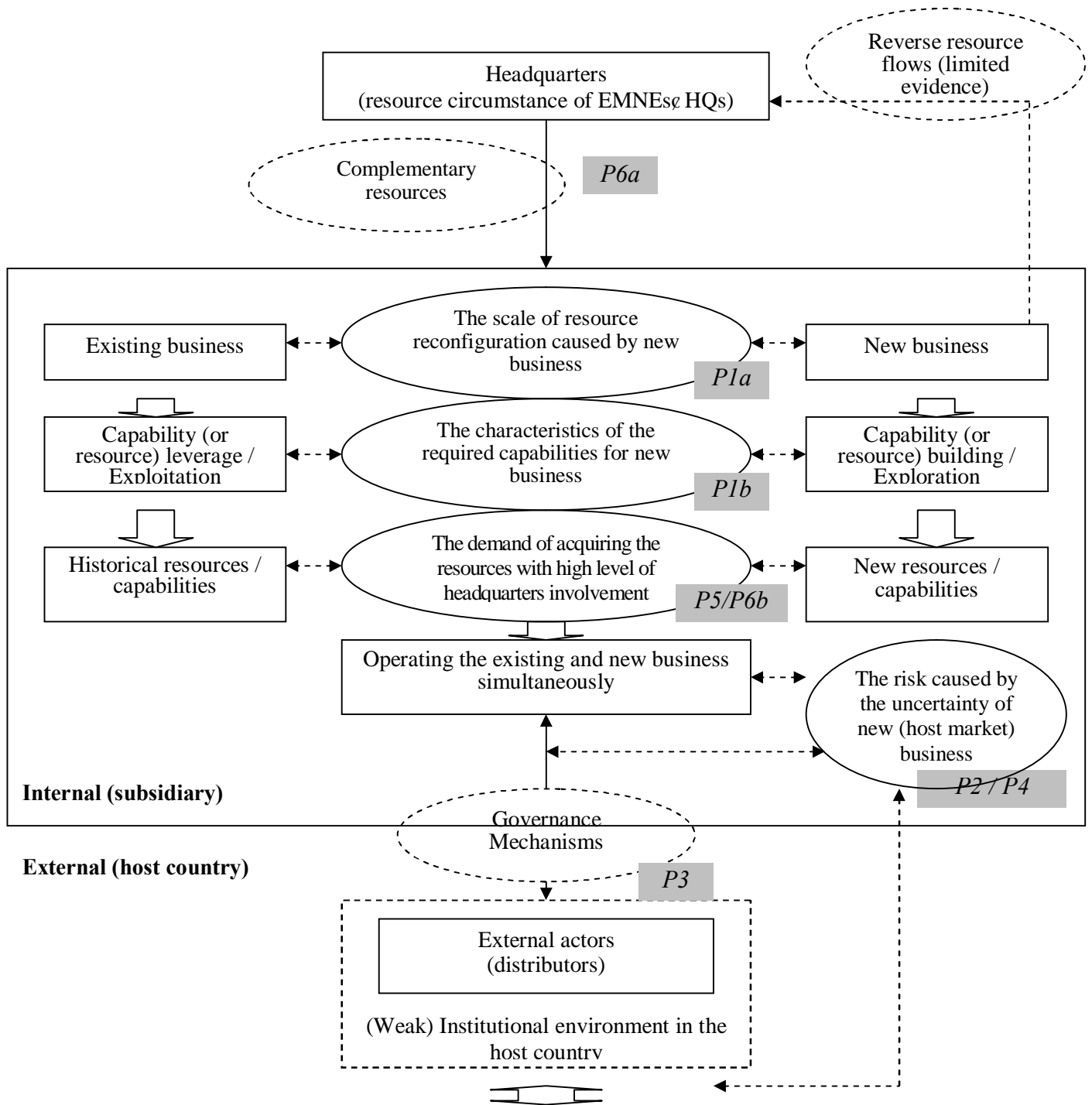


Figure 8.1 Linkages of the conceptual elements investigated in this study

Figure 8.2 presents a revised conceptual framework to that proposed at the end of chapter two in accordance with the findings of the case studies and in terms of the structure, the three basic elements: subsidiary organisations, headquarters, and the host environment have remained. More specifically, apart from the concepts of introduced in the literature review, the revised conceptual framework consists of additional constructs generated from the data analysis, including: the scale of the resource reconfiguration caused by new business, the characteristics of the required capabilities for new business, the uncertainty of host market business, the demand of subsidiaries for acquiring resources with high level of headquarters involvement, and the resource circumstances of EMNEs (headquarters/subsidiary).

Moreover, the box at the bottom lists the six main strategic initiatives associated with host market-oriented subsidiary transformation, which emerged from the two case studies.



Main strategic initiatives associated with host market-oriented subsidiary transformation

- Prioritise exploiting historical resource (at the initial stage)
- Ambidexterity of exploitation and exploration
- Dominant economic mechanisms conducted to govern the inter-firm relations with external actors
- Retaining high authorities within inter-firm relations with external actors
- Inefficient resource transfer within EMNEs responding to the host market-orientation of subsidiaries
- Roles of headquarters are taken over by the subsidiaries with large integrated mandate

Figure 8.2 A revised conceptual framework

8.3 Theoretical contribution

8.3.1 Foreign direct investment by MNEs from emerging economies (EMNEs)

Although the growing outward and inward FDI of emerging economies has attracted wide attention from academia and practitioners, the extant literature has mostly focused on a restrict range of research contexts. That is, with regards to the former the main research focus has been to investigate the foreign expansion of EMNEs with asset-exploration motives, particularly through acquiring advanced technologies and brands in developed economies by mergers and acquisitions (e.g., Child & Rodrigues, 2005; Deng, 2009; Elango & Pattnaik, 2011; Globerman & Shapiro, 2009; Luo & Tung, 2007; Rui & Yip, 2008). By contrast, the studies on MNE strategies regarding their operation in emerging economies have been largely based on the practices of those from developed economies (e.g., Andrew & Witold, 2000; Delios & Henisz, 2000; Khanna & Palepu, 2010; Luo, 2007). From this it becomes apparent that researchers still have relatively little understanding regarding EMNEs investing in countries with a similar or lower economic development stage, or in the so-called context of South-South FDI (UNCTAD, 2006). In particular, the field merits scholarly investigation into how EMNEs cope with the dual liabilities they encounter: liability of emergingness and foreignness. The former term refers to the limited resources held by the EMNEs (Madhok & Keyhani, 2012), while the latter denotes the case subsidiaries' unfamiliarity with the business environment of the host country (Zaheer, 1995). This research endeavour has addressed this gap.

Beyond this, this research further contributes to the extant literature by having investigated how subsidiaries align their resource bases to host market-orientation, in contrast to how were positioned by their headquarters at the inception of operations in the host country. That is, taking an evolutionary perspective of FDI (Benito, et al., 2009), this study has unveiled the process of subsidiary transformation and thus advances the single time spot-based research on EMNEs, which has mostly focused on the selection of entry mode (Makino, et al., 2002; Tsang & Yip, 2007). In addition, building upon the limited literature exploring the phenomenon of 'dual strategy' adopted by MNEs investing in China, that of operating export-oriented and host

market-oriented businesses at the same time (Buckley & Meng, 2005, p.112), this study further bridges the gap in understanding regarding how the shift in market orientation and simultaneous operation is materialised for EMNEs.

With regards to the process of overcoming the dual liabilities of emergingness and foreignness, this study unveiled this by drawing on the perspective of ownership, location-bound assets acquired from the host country and the resource flows within MNE organisations. First of all, regarding the debate on whether EMNEs hold ownership assets, this researcher has adopted the view that they do possess distinctive ones to those that conventional MNEs possess (Guillén & García-Canal, 2009; Luo & Tung, 2007; Mathews, 2006), such as efficient manufacturing (Wells, 1983). For the case subsidiaries, the efficient manufacturing has not been simply as their ownership assets, check but also the historical resources of their organisations. During the process of tapping into the host market in China, it was observed that these ownership assets (or historical resources) were upgraded to broaden the range of clients, and then leveraged to build up the relations with the distributors, thus being in the form of a location-bound asset.

Moreover, regarding the aspect of resource flows within MNE organisations, the complementary resources being efficiently deployed between headquarters and subsidiaries played the determining factor in subsidiary transformation. In particular, the resources holding greater involvement of headquarters, such as R&D and product development, emerged as being the most critical managerial resources. However, grounded in the distinctive cross-border management issues encountered by the case companies, i.e. inefficiently accommodating the demand of host market by the headquarters-centric product development (case A) and the phenomenon of òmigrant headquarterö (case B), it is argued that they have possessed limited capabilities with respect to this.

This research has elicited that the case subsidiaries undertook an evolutionary process of integrating the upgraded ownership assets with the location-bound assets acquired from the host country and those transferred from home country (as shown in figure 8.3). Meanwhile, the evidence regarding resource flows in the reverse direction, i.e. transferring from subsidiaries to headquarters has been rarely observed.

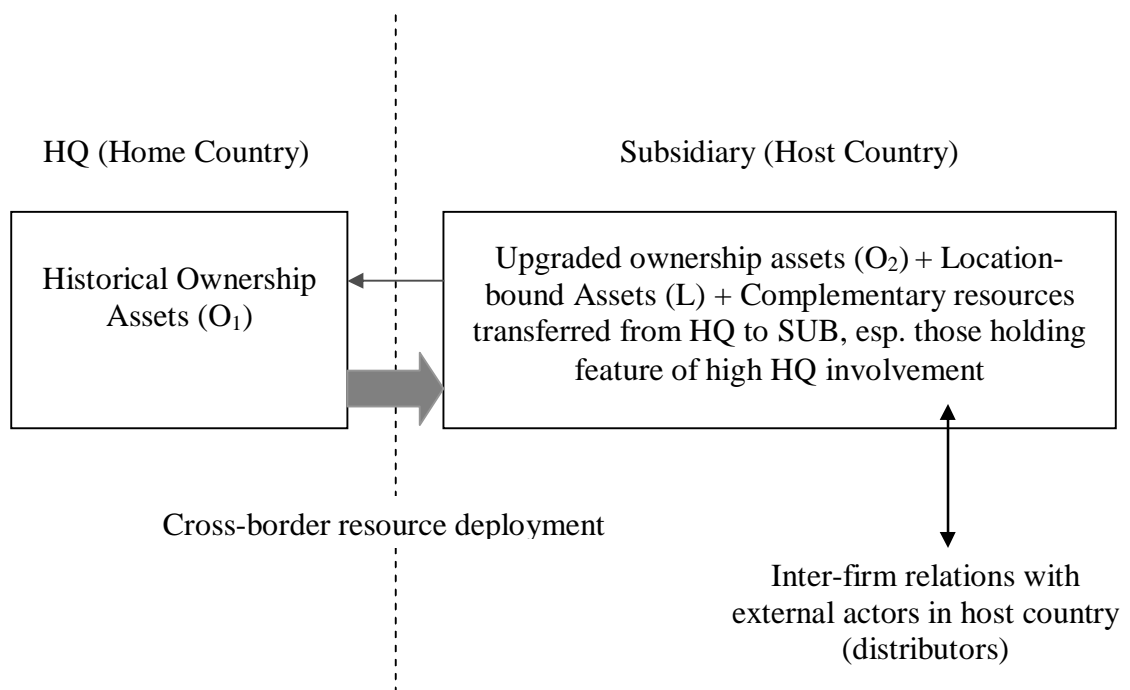


Figure 8.3 The evolutionary process of the ownership assets of the case companies

Moreover, the outcomes of this study have revealed that newly-built inter-firm relations with external actors have to be aligned with the resource bases of subsidiaries, such as the first-tier distributors being invited to help set up the product portfolios. In essence, this is an organisational learning process that requires the integration of knowledge from external actors with the indigenous resources held by subsidiaries, which has been identified as an underlying force of internationalisation (Meyer & Thaijongrak, 2013). Hence, this finding not only advances understanding of network relations in the internationalisation process of EMNEs (e.g., Chen, 2003; Elango & Chinmay, 2007; Musteen, Francis, & Datta, 2010) by integrating the perspective of resource circumstances, but also highlights that forging closer linkages with external actors in the host country, or in other words fairly addressing the host market-orientation of powerful subsidiaries, is critical for the internationalisation of EMNEs.

Given that the inter-firm relations between the case subsidiaries and the distributors were investigated, this study also addresses the gap regarding how MNEs get access into these location-bound resources, which has been implicitly assumed in much of the literature they can access freely (Hennart, 2009), and then advances the meaning of location for MNE operations (Narula & Santangelo, 2012).

8.3.2 Subsidiary development

Grounded in the preliminary conceptualisation framework indicated in chapter 2, the findings of this study contribute to the extant theories in two ways. Firstly, analysis of the resource reconfiguration undertaken by the case subsidiaries revealed the key roles of (1) continuously exploiting the historical resources; and (2) operating existing and new business simultaneously, whilst the EMNEs subsidiaries were undertaking host market-oriented transformation. Therefore, consistent with the advocacy of paying attention to the resource circumstances when researchers study the changes in subsidiary roles (Cavanagh & Freeman, 2012; Dörrenbächer & Gammelgaard, 2006), the findings of this study have further supported the importance of continuing to operate existing business grounded in historical resources during subsidiary transformation.

Secondly, having adopted the network perspective of MNEs (Andersson & Forsgren, 2000; Andersson, et al., 2002; Forsgren, et al., 2005; Meyer, et al., 2011), the subsidiaries' relations with external actors, and the resource flows within MNEs in response to subsidiary transformation have been investigated. Regarding the former, it emerged that the stability and longevity of the profits of the distributors have been fundamental as part of the case subsidiaries' imposed governance mechanisms. That is, these kind of rules-based relations (Peng, 2003) are highly linked to the performance of the distributors and as such are different to the predominantly relationship-based ties as identified in the extant literature on doing business in emerging economies (e.g. Boisot & Child, 1996; Hoskisson, et al., 2000). Moreover, by having explored how the subsidiaries of EMNEs govern inter-firm relations, this study has addressed the overemphasis on network structure and performance found in much of the relevant literature, i.e. by probing the resource configurations of the firms themselves (Dhanarag & Parkhe, 2006; Zaheer & Bell, 2005). Further theoretical

implications regarding the governance mechanisms employed by the case subsidiaries for inter-firm relations are presented in the next subsection.

In terms of the resource flows within MNEs responding to subsidiary transformation, through probing how the complementary resources were allocated to the subsidiaries to support their operation in the host market in China, this research advances the extant theory, because it has revealed the distinctive interconnectedness of certain managerial functions (Rugman, Verbeke, & Yuan, 2011) and the resource complementarity (Helfat, 1997) between them. That is, how the complementary resources to marketing activities, e.g. R&D and product development were transferred from headquarters to subsidiaries was investigated. In addition, based on the case study of Beta, how the resource circumstances of MNEs shaped the pattern of cross-border resource flows within their organisations was explored. It emerged that for these particular EMNEs, which lacked complementary resources, the headquarters were unable to support in full their subsidiaries' transformation and one case the former was even eventually replaced by the latter through a process dubbed 'migrating headquarters' in this thesis.

8.3.3 Inter-firm relations with distributors

As indicated in chapter 2, the mechanisms adopted to govern inter-firm relations can be generally categorised as pairs of concepts, e.g. economic vs. social mechanisms (Dong, et al., 2008; Luo, 2006), control vs. trust (Tsui-Auch & Möllering, 2010), and formal contracts vs relational governance (Poppo & Zenger, 2002). These pairs of governance mechanisms can be further generalised into two groups: rules-based or relations-based (Peng, 2003), which are manifested by arm's length transactions and personalised ties, respectively. Beyond the debate regarding whether the two types of mechanisms substitute (Gulati, 1995; Uzzi, 1997) or complement (Poppo & Zenger, 2002) each other, some researchers have pointed out that they are undertaken simultaneously when companies govern their inter-firm relations in emerging economies (Tsui-Auch & Möllering, 2010; Zhou, et al., 2008). Hence, it is quite clear that companies are unlikely to benefit continually from inter-firm relations by merely exploiting relational ties, even in an emerging economy with high volatility. However,

although undertaking the two types of governance mechanisms at the same time has been acknowledged, further evaluation on the costs and benefits from undertaking governance mechanisms is merited (Zhou, et al., 2008).

Regarding this, this thesis advances understanding of the mechanisms that can be adopted to govern effectively inter-firm relations of a vulnerable nature, i.e. building up relations with distributors so as to tap into an emerging market. Moreover, in line with the findings of Tsui-Auch & Mölleringø (2010) study on how foreign investors restrain opportunistic behaviours in China, it emerged that control and trust have been adopted simultaneously by the case subsidiaries, but the degree to which governance mechanisms have been applied has been determined by distributorsø position in the distribution hierarchy. That is, among the distribution systems which are primarily governed by rules-based and control-oriented mechanisms, the first-tier distributors are more closely engaged in the value-creating activities of the case subsidiaries than the lower-tier ones. In practice, inviting the first-tier distributors to provide feedback on newly-launched products, taking suggestions from them on product development, and connecting them through the management information system, are the relationship-enhancing strategies, actions, and symbolic gestures (Joseph, Gardner, Thach, & Vernon, 1995) that have been employed by the case subsidiaries.

Moreover, following the cross-phase perspective adopted in evaluating the manufacturers-distributor relations (Dong, et al., 2010), this study has elicited that there has been a distinct shift in the inter-firm relations between the case subsidiaries and distributors between the initial and mature stages. That is, with the case subsidiariesø increasing bargaining powers over their relations with distributors, they are now able to shape the distributor system through adjusting the distribution structure and can put pressure on the distributors to explore further the untapped markets, rather than unilaterally relying on them to promote their products. With regards to the institutional perspective, the reward systems and penalties imposed upon their distributors performance, has enabled the case subsidiaries to build up a kind of model for action, or template for fostering legitimacy among them (Newman, 2000). Therefore, these practices in relation to the governance mechanisms undertaken to manage the inter-firm relations with the distributors, can be seen as a

process that is framing the institutional development of the distribution sector in China (Kostova, Roth, & Dacin, 2008). This finding provides insights into the evolving institutional environment of a host country under the influence of enterprise initiatives, and thus advances the study on managerial networking intensity of businesses in the context of transition economies which previously has only been considered as being an institutional aspect (Danis, Chiaburu, & Lyles, 2010).

8.3.4 Dynamic capabilities view

As an emerging offshoot of resource based theory, the dynamic capabilities view literature has largely emphasised firms' top management teams as the main actors exerting them (Augier & Teece, 2007). Having explored how the case subsidiaries reconfigured their resource bases for responding to the host market-oriented transformation, this study has considered DCV in a new domain: subsidiary-level management issues.

With regards to how the case subsidiaries addressed the resource deficiency when they extensively tapped into the Chinese market, the outcomes of this work have demonstrated that the process of developing local marketing competences (Wu, et al., 2007) requires not only organisation wide resource reconfiguration, but also alignment between the resource bases of subsidiaries and their relations with external actors. In addition, given that resources are held by different units of MNEs, this study has elicited that acquiring complementary organisational capabilities, which is critical to building up marketing capabilities (Morgan, Vorhies, & Mason, 2009), can only be achieved through the effective deployment of resources between headquarters and subsidiaries. Furthermore, this research have revealed that capability upgrading, capability leverage, capability building, coordination capability and cooperative capability are the five components comprising the dynamic capabilities in the context of subsidiary transformation pursued by the case EMNEs. In terms of a similar vein of typology put forward by Croom (2001), the first four strategic initiatives can be categorised as operational competences, whilst cooperative capability is a kind of relational competence necessary for accessing the external resources (Croom, 2001). In addition, given that how the case subsidiaries obtained resources from distributors and headquarters was investigated, the cooperative capability can be further defined

as two components: inter-firm relations with external actors in host environment, e.g. distributors, and cross-border resource transfer within MNEs.

8.4 Research limitations

This study has been subject to some limitations. The foremost one is that regarding the boundary conditions of the explanations (Welch, et al., 2011) generated from the two case studies of Taiwanese MNEs. That is, the transferability of the findings based on companies Alpha and Beta has been confined to those MNEs in similar contexts. However, given that the case companies are from a relatively mature emerging economy, namely Taiwan (Xu & Meyer, 2013), together with firm-specific advantages in efficient manufacturing, it is hoped that the findings can be applied to other manufacturing-based EMNEs, especially those which attempt to tap into the host market of other emerging economies, such as China.

Moreover, although this researcher left the interviewees to talk freely about their experiences when operating in the Chinese market, rather than intentionally steering them to justify a presumed opinion of the, this study still faced the limitation caused by adopting semi-structured interviews in collecting data. That is, the responses from interviewees might be slightly twisted as the researcher adopted probing terms to guide the interview process based the conceptualisation framework grounded in extant theories.

In addition, the contributions of this work have been confined by the access to the informants and secondary data collected. Regarding the former, given that most of those interviewed were subsidiary-level staff in marketing departments, the broader perspectives from non-marketing departments and headquarters have not been included. Regarding this, although information released in the newsletters published by the case companies was used as secondary data along with two books (about company Alpha), it would have been beneficial to the research outcomes if this was triangulated through interview data from these actors. Given that some secondary data were quoted without consulting the informants' views on them, the analysis was unilaterally grounded in the researcher's interpretation. Moreover, in the absence of

financial data associated with the performance of the case subsidiaries in China, the effects of exerting dynamic capabilities have not been fully examined and thus some of the contestations in the analysis are relatively weak, because they lack such supporting evidence.

8.5 Directions for future research

In relation to the directions of future research, firstly, the propositions raised from this study can be tested by carrying out follow-up surveys to elicit the nature of the links between the conceptual elements in the overall framework presented above (as shown as figure 8.1). Regarding the concerns over whether the propositions are testable, the extant literature on the conceptual elements, e.g. the internal and external embeddedness as defined by Ambos et al. (2011) and the variables indicated by Newman (2000), can be employed to design the indicators of a survey on, for example, the institutional environment in a host country. In addition, future qualitative comparison studies will be helpful for clarifying whether the resource circumstance or institutional environment in host country serve as the dominant driving force determining the organisational initiatives undertaken during host market-oriented subsidiary transformation.

Moreover, this study raises conceptual issues that merit further investigation. For instance, the knowledge generated from a foreign market is expected to facilitate the accumulation and recombination of knowledge throughout an MNE organisation (Kogut & Zander, 1993). However, evidence regarding reverse resource transfer was rarely observed for either case company, with the only explicit practice associated with this being that the products launched by B-SUB are now being promoted by B-HQ in Taiwan. Based on the extant literature identifying the prerequisites for this reverse direction of resource flows within MNEs (Yang, et al., 2008), future research could explore other factors which determine the occurrence of such transfer in the context of EMNEs.

Furthermore, in line with the literature which advocates probing strategic flexibility when researchers investigate the strategies conducted by MNEs in emerging economies (Wright, et al., 2005), or managing the relations with

international distributors (Sinkovics & Roath, 2012), it emerged that A-SUB and B-SUB have been pursuing this by operating the export-oriented and host market-oriented business simultaneously. However, both case subsidiaries largely failed to persuade their headquarters to support their the host market operation in the form of cross-border asset co-specialisation (Pitelis & Teece, 2010). Hence, future research might explore how MNEs develop the capabilities of deploying resources so as to cope effectively with the demand of foreign markets (Morgan, et al., 2009), which has been identified as one type of dynamic capability for MNEs to maintain flexibility in multi-embedded organisations (Meyer, et al., 2011).

Beyond capability building, it is also suggested that a further avenue of study is to explore under what circumstances headquarters are able effectively to allocate the required resources to support subsidiary operations, particularly to those embedded subsidiaries (Schuster & Holtbrügge, 2012) holding strong linkages with external actors in host countries. In this regard, the recent literature has indicated some initiatives might be applied to address this conflict within MNE organisations, such as increasing overlaps between the resources held by headquarters and a subsidiary (Nell, et al., 2011), or strengthening the understanding of headquarters regarding their subsidiaries and their local networks (Vahlne, Schweizer, & Johanson, 2012).

8.6 Managerial Implications

Grounded in the two case studies, this research has identified several strategic initiatives, which can be employed by practitioners, particularly those at the subsidiary-level in the similar scenarios, so as to address the issue of resource deficiency. Firstly, it has been found that manufacturing-based historical resources have been exploited since the case subsidiaries commenced operating in the Chinese market, and then supported the development of host business in various ways. Notably, the profits generated from the existing business have financed the host market business, which has exhibited high volatility. These experiences affirm the importance of historical resources during the process of business transformation. Therefore, in order to address resource deficiency enterprises should be advised to consider how to further make use their historical resources, in particular, how to

coordinate them with newly-acquired ones. Moreover, the continuously exploited historical resources imply that the original business model has been retained throughout the time of operating the new business. Consequently, as became apparent in the two case subsidiaries, coordination capabilities are critical if conflict between the business models is to be avoided.

Secondly, for practitioners operating in local markets of emerging economies, the findings of this research give pointers in how to manage effectively inter-firm relations with the key external actors in the host environment, i.e. their distributors. That is, enterprises are advised to employ performance-based economic mechanisms so as to effectively govern the cooperation ties with distributors. More specifically, it has emerged that in a volatile business environment with a weak institutional framework, trust has been mostly driven by economic interests rather than purely grounded in social relations. Hence, developing the products which meet local demand with high profitability is crucial for enterprises wishing to enter rapidly growing markets in emerging economies. However, in order to achieve the high profitability of products, complementary resources such as R&D and product development need to be aligned with the host market orientation. With regards to this issue, the outcomes from this study have shown that how to achieve this alignment between headquarters and subsidiaries remains an unsolved cross-border management challenge for EMNEs. This is because headquarters are likely to hold on to as much power as possible for fear of losing control to an increasingly externally embedded subsidiary, through the process of headquarters migration, as identified in this thesis.

Appendix 1: Interview protocol and questions

Background

Taiwanese firms have developed a significant role, with business models based on original equipment manufacturing (OEM) and close relationships with their international buyers. However, the more intensive competition and meagre margins have been eroding the competitiveness of this business model. Consequently, these companies have been facing the challenge of transforming from an OEM model to new types of business models. With the increasing costs in Taiwan, most of its companies have utilized cheaper labour elsewhere through foreign direct investment (FDI) so as to assemble products for export, and hence enhance their cost competitiveness.

The strategic change of foreign subsidiaries could be seen as a critical step triggering a shift from OEM to a new business model. Especially in China, the main recipient of Taiwanese FDI, many Taiwanese companies have been facing massive challenges from internal and external changes, such as the impact of the unprecedented financial crisis on the export market. Therefore, many Taiwanese MNEs have considered adjusting their strategy to respond to the volatile business environment. Tapping into the host country market, rather than the export one, is a typical strategy. However, the shift from export-orientation to local market-orientation not only requires deeper involvement in the host environment, but also brings with it a need for fundamental change of business processes and organizational structures. Some companies have succeeded in building high market shares with their own brands in Chinese domestic market. On this basis, the core issue of this study is how did these Taiwanese MNEs develop their capabilities and undertake transformation successfully?

Research questions

The topics covered in this research include the development of required capabilities, the adjustment in the existing operational process and the interaction between business environments during subsidiary transformation in China. The research questions are as follows:

1. Resources

- (1) What are the critical resources that subsidiary organisations need to transform from export-orientation to local market-orientation?
- (2) How do subsidiary organisations acquire these market-oriented resources?
- (3) How is the operation mode (ownership arrangement) changed?

2. Dynamic capability development

- (1) How do subsidiary organisations develop market-oriented capabilities internally after acquiring complementary external resources?
- (2) How do subsidiary organisations adjust their business processes and organisational structures during the transformation from export-orientation to local market-orientation?
- (3) How do subsidiary organisations adapt their resources and capabilities to their new market-oriented business processes?

3. Distribution management

- (1) How do subsidiary organisations establish their distribution hierarchy and channels to cover the entire market area of China?
- (2) What criteria do subsidiary organisations use to select appropriate partners for their distribution system?
- (3) What kinds of mechanisms do subsidiary organisations adopt to control their distribution system, including pricing, product flow and inventory management?
- (4) What kinds of mechanisms do subsidiary organisations adopt to increase sales through their distribution system?

4. Implications for global business strategy

- (1) How do resources and capabilities developed in transformation processes in subsidiary organisations contribute to companies' global business strategy?

Interview questions

- **Section 1: Overview of the strategic change of the foreign subsidiary**
- **Targets: Group CEO and director of the Chinese market**

Question (open-ended)	Follow-up Key Words
1.How has the strategy of this subsidiary changed over time since its inception? 2.Can you describe the change by some stages of development? 3.What are the main driving forces that triggered change at each stage? 4.What are the main features of this subsidiary's strategy at each stage?	<ul style="list-style-type: none"> • Stages of FDI transformation • From export-oriented to local market-oriented (market positioning)? • From technology-driven to customer-focused (product orientation)? • From OEM to Branding (business model)? • External and internal conditions

- **Section 2: Resource & Capability**
- **Targets: Group CEO and director of Chinese market**

Question (open-ended)	Follow-up Key Words
1.Were the initial resources and capabilities appropriate for dealing with the new situation? If not, what were the critical (most relevant) ones? 2.How did your company (subsidiary) acquire the resources and develop the capabilities needed? 3.Did your company acquire any resources from the host country, which were not mentioned before?	<ul style="list-style-type: none"> • Key resource and capability among the change • Marketing-oriented resource and capability • Brand • Product (close to consumer need) • Human resources (distributor, wholesaler, retailer) • Entry mode (WOS, M&A, Strategic Alliance)

- **Section 3: Business Processes & Organisational Structure**
- **Interview Targets: Director & Marketing manager of the China market**

Question (open-ended)	Follow-up Key Words
1.How have business processes and organizational structures been adjusted since the beginning of investment in China? 2.How did your company adjust processes and structures at each stage of change?	<ul style="list-style-type: none"> • Reconfigure the existing and new resources • Re-deployment of the value chain (design, manufacturing, marketing, etc.) • Role of the marketing department (more important than before?) • Cross-border management • Parent-subsidiary relationship • Autonomy of foreign subsidiary

- **Section 4: Institutional responsiveness 1 (Distribution management issues from the Taiwanese MNEs' perspective)**
- **Interview Targets: Director & Marketing manager of the Chinese market**
- **Only applicable if change from export-orientation to market-orientation**

Question (open-ended)	Follow-up Key Words
1.What have been the major difficulties when selling to the local markets in China? 2.If we consider the distribution channel as the most complex aspect of reaching host country markets, how did your company cope with it? 3.How did your company build the distribution system to reach the entire local market? 4.Did you face any resistance from local distributors to the management systems introduced by your company? If so, please	<ul style="list-style-type: none"> • Structure of the distribution system • Criteria for selecting partners • Conventional business practices or problems (e.g. account default) • Institutional inertia (isomorphism) • Reconcile disputes among the distribution channels • Adjustment to distribution

explain.	management strategy <ul style="list-style-type: none"> • Measures for controlling market order • Incentives for encouraging sales
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- **Section 5: Institutional responsiveness 2 (Distribution management issues from the local distributors' perspective)**
- **Interview Targets: Distributor (different layers) / Shop manager in host country market**

Question (open-ended)	Follow-up Key Words
1.Can you point out any change in the distribution system after foreign-owned companies started focusing on the local markets? 2.In your view, how do local businesses experience working with Taiwanese companies in the Chinese market? 3.Compared to MNEs from Western countries, do you think Taiwanese brands have advantages in this country?	<ul style="list-style-type: none"> • Origin of the change in the distribution system • Impact from different country's investors on the distribution system (institutional change) • The efficacy of the measures taken by Taiwanese companies • The image of Taiwanese companies in the host country

- **Section 6: Implications for the global business strategy**
- **Interview Targets: Group CEO**

Question (open-ended)	Follow-up Key Words
1.From headquarters' view, how do resources and capability developed from foreign subsidiaries contribute toward your global strategy? Please give examples.	<ul style="list-style-type: none"> • Experiences from FDI transformation • Knowledge flow between locations • Driving force for internationalization

Appendix 2: List of informants

Case	Informant	Level	Department	Position
Alpha	A01	Subsidiary	Marketing	Former Head
	A02	Subsidiary	Marketing	Head
	A03	Subsidiary	Marketing	Former Deputy Head
	A04	Subsidiary	Marketing	Former Special Assistant to Head
	A05	Subsidiary	Marketing	Director of Business Unit
	A06	Subsidiary	Marketing	Former Director of Regional Market ²⁴
	A07	Subsidiary	Marketing	Director of Regional Market
	A08	Subsidiary	Marketing	Former Deputy Director of Regional Market
	A09	Subsidiary	Marketing	Manager of Regional Market
	A10	Subsidiary	Manufacturing	Former Head
	A11	Subsidiary	Manufacturing	Former Head
	A12	Headquarter	Marketing	Former Director of Business Unit
	A13	Headquarter	Marketing	Manager of Business Unit
	A14	-	Distributor (city level)	CEO
	A15	-	Distributor (city level)	CEO
	A16	-	Distributor (city level)	CEO
Beta	B01	Subsidiary ²⁵		Vice Chairman
	B02	Subsidiary	Marketing	Head
	B03	Subsidiary	Marketing	Manager of Regional Market
	B04	Subsidiary	Product Development	Manager of Business Unit
	B05	Subsidiary	Administrative	Special Assistant to Vice Chairman
	B06	Headquarter		Chairman
	B07	Headquarter		President
	B08	-	Distributor (city level)	CEO
	B09	-	Distributor (city level)	CEO

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